

# Trade in Uncertain Times: Opportunities and Risks for Small States

A Case Study of Brexit, New Zealand and Agricultural Trade

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A thesis submitted in partial fulfilment of the requirements for the degree of Masters of Policy and  
Governance at the University of Canterbury, Christchurch, New Zealand

*This is dedicated to Mrs. Scott and Mrs. Lawrence – You are greatly missed.  
Thank you*

# **Abstract**

*On the 23<sup>rd</sup> of June 2016, the United Kingdom (UK) held a referendum in which it voted to leave the European Union (EU) – an event now known as Brexit. The UK's impending departure could have severe economic and political implications for New Zealand with respect to agricultural trade.*

*New Zealand and the UK have a strong relationship established during colonial times. This consequently formed the basis of New Zealand's ensuing agriculture relationship with the EU that has been limited due to competing interests. However, with the UK initiating the process of Brexit there is a chance to re-assess the economic trade relationship with both the UK and the EU via Free Trade Agreements (FTA). New Zealand needs to adapt to the changing international political economy, while simultaneously evolving its relationships with both the UK and EU, as they undergo changes to their respective regional and domestic politics. Subsequently, New Zealand will have to navigate considerable uncertainty to avoid the negative implications created so that New Zealand can embrace the opportunities that have presented themselves via the process of 'Brexit'.*

*This thesis explores the short and long term diplomatic and trade risks and opportunities for New Zealand's agriculture sector. Through a review of literature and interviews with fifteen key informants in the field of trade policy, this thesis examines how New Zealand should position itself to maximise leverage and influence the subsequent international trade negotiations that have resulted from Brexit disrupting the international political economy. Key findings emphasise significant questions about uncertainty concerning New Zealand's future relationships with the UK and the EU and the potential impacts for a small state.*

## Acknowledgements

This project was completed in one of the most complex and challenging periods of my life, so it would be amiss to not thank those who backed my ability to complete it.

Firstly, to my supervisors, Associate Professor Amy Fletcher and Associate Professor Bronwyn Hayward, whose understanding and guidance cannot be overstated. A great deal of gratitude goes to Professor Alexander Tan who originally encouraged my love of political science and to the Department of Political Science at the University of Canterbury.

I would like to thank the Business and Parliament Trust for their scholarship, as it allowed me to interview some truly inspiring people for my thesis, as well as the College of Arts for their scholarship. Following from that, thank you to those who agreed to be interviewed.

A special thanks goes to the Blavatnik School of Government at the University of Oxford, United Kingdom, for allowing me to use their facilities when visiting Associate Professor Bronwyn Hayward.

A big thank you goes to Simon Hearsey, who helped me get on the right track by explaining the practical side of international trade.

To my friends, thank you for knowing when to force me to go to the gym or down to the pub for a break, along with those many re-assuring phone calls!

And finally, to my family. Thank you, Jack and Harry, for being such wonderful brothers and making sure to get me to laugh every now and then!

Mum and Dad, I couldn't have done this without you. Mum, your fierce determination that I receive the best the world could offer has given me the most extraordinary life and opportunities; but more importantly when I stumbled you were there to pick me up. And Dad, I think we all know who is to blame for my love of all thing's politics and my stubbornness - spiders don't give up. You always believed that I could do whatever I set my mind too; often more than what I thought possible! Thank you both for believing and supporting me in all of my pursuits.

## Contents

<b><i>A Case Study of Brexit, New Zealand and Agricultural Trade .....</i></b>	<b><i>1</i></b>
<b><i>Abstract .....</i></b>	<b><i>3</i></b>
<b><i>Acknowledgements .....</i></b>	<b><i>4</i></b>
<b><i>Table of Figures .....</i></b>	<b><i>7</i></b>
<b><i>Key Terms .....</i></b>	<b><i>8</i></b>
<b><i>Chapter One – Introduction.....</i></b>	<b><i>10</i></b>
1.1 Brexit: An emotional response and an economic problem.....	10
1.2 Relevance.....	13
1.3 Research aim and objectives.....	13
1.4 Methodology .....	14
1.4.1 Research approach .....	14
1.4.2 Data Gathering Method .....	16
1.4.2.1 Semi-Structured Interviews.....	16
1.4.3 Validity of the Interview Sample.....	17
1.4.4 Limitations of Research Method .....	18
1.4.5 Methodology Conclusion .....	19
1.5 Thesis structure .....	19
1.6 Summary .....	20
<b><i>Chapter Two: Agriculture Trade Policy; Understanding Issues for Small States.....</i></b>	<b><i>22</i></b>
2.1 Introduction.....	22
2.2 What is a Small State? .....	22
2.3 Small State Responses to the International Political Economy.....	23
2.4 The reality of being small and distant .....	25
2.5 Negotiating Against the Odds .....	26
2.6 Anticipatory Governance .....	29
2.7 Conclusion .....	30
<b><i>Chapter Three: Understanding New Zealand's Agriculture Trade Relationship with Europe, A Historical Overview .....</i></b>	<b><i>31</i></b>
3.1 Introduction.....	31
3.2 The Colony of New Zealand .....	31
3.3 A Market Competition Economy .....	32
3.4 The Current Trade and Political Relationship between the EU and New Zealand.....	34
3.5 An Accidental Brexit .....	36
3.6 Conclusion.....	38
<b><i>Chapter Four: Findings from Key Respondents.....</i></b>	<b><i>39</i></b>
4.1 Introduction.....	39
4.2 Uncertainty .....	39

4.2.1 The United Kingdom, European Union and the final withdrawal treaty of Brexit.....	39
4.2.2 Leavers, Remainers and the European Union .....	41
4.2.2.1 The Leavers and Remainers in British Politics .....	41
4.2.2.2 The United Kingdom's Reputation .....	42
4.2.2.3 Confidence .....	43
4.2.3 Uncertainty conclusion.....	44
4.3 Relationships .....	44
4.3.1 The United Kingdom .....	45
4.3.2 The European Union .....	45
4.3.3 Presence and Relevance.....	46
4.3.4 Relationships Conclusion .....	47
4.4 Vigilance or Naivety? .....	47
4.4.1 Bi-Partisan Trade Policy .....	47
4.4.2 The Agriculture Sector .....	48
4.4.3 A Naïve Conclusion .....	49
4.5 Impacts .....	49
4.5.1 The Good.....	49
4.5.1.1 New Zealand- United Kingdom Free Trade Agreement.....	49
4.5.1.2 New Zealand-European Union Free Trade Agreement .....	51
4.5.1.3 The Common Agriculture Policy and a Market Based Approach .....	51
4.5.2 The Bad .....	53
4.5.2.1 The British Economy .....	53
4.5.3 The Ugly .....	53
4.5.3.1 Crash-Out.....	54
4.5.3.2 Trade Rate Quotas .....	56
4.5.4 The Awkward .....	57
4.5.4.1 'Soft-Brexit' .....	57
4.5.4.2 First in Line? .....	57
4.5.4.3 Is New Zealand able to fill the gap?.....	57
4.5.4.4 New Zealand's Image .....	58
4.6 Impacts Conclusion .....	59
4.7 Finding's Conclusion .....	59

***Chapter Five: Implications from interviews for understanding New Zealand agricultural trade opportunities and risks under Brexit .....***

5.1 Introduction.....	60
5.2 Jack, the Giant Killer: Small State Leverage in a Global Market?.....	60
5.2.1 How do you solve a problem like Maria? Mitigating Brexit's impact on New Zealand's Agriculture Sector .....	61
5.2.2 A Free Trade Agreement with the United Kingdom .....	62

5.2.3 A Free Trade Agreement with the European Union .....	63
5.2.4 Trade Rate Quotas .....	64
5.2.5 Conclusion: An Opening into a Protected Market .....	64
5.3 Three little pigs: Can you anticipate Brexit?.....	65
5.3.1 Strategies to Anticipate 'Brexit' .....	65
5.3.2 Team work.....	66
5.3.3 Know how, can do .....	67
5.3.4 A Helpful Hand .....	68
5.3.5 Huh, We Like That Too!.....	68
5.3.6 The Flexibility to Avoid Brexit.....	68
5.4 Conclusion.....	69
<b>Chapter Six: Conclusion and Policy Recommendations.....</b>	<b>70</b>
6.1 Introduction.....	70
6.2 Summary of Thesis.....	70
6.3 Recommendations.....	71
6.4 Limitations .....	73
6.5 Areas for further research.....	73
6.6 Final comments .....	73
Appendix One.....	74
Appendix Two.....	75
Appendix Three .....	77
Appendix Four .....	79
<b>Bibliography.....</b>	<b>80</b>

## Table of Figures

Figure 1. Top Export Partners for New Zealand Goods and Services.....	11
Figure 2. New Zealand's Top Ten Total Export Goods .....	12
Figure 3. Summary of Respondents Nationality and Employment Sector .....	17

## Key Terms

**Agricultural Exports:** standard WTO definition for agriculture. Products include Harmonised System (HS) codes 1–24 inclusive, with the exception of HS 03 and some of HS 16 (processed fish). It also includes casein, hides and skins, and raw wool.

**Common Agriculture Policy:** The objectives, set out in the Treaty of Rome, included increased productivity, provision of a fair standard of living for the agriculture community, the stabilization of markets, security of food supplies, and provision of food to consumers at reasonable prices. In effect, it involves a massive transfer of resources from non-farmers to farmers, has protected EU farmers from international competition, and has artificially inflated food prices.

**Comparative Advantage:** The theory of comparative advantage holds that nations should produce and export those goods. They can produce at a lower cost than other nations and import those items that other nations can produce at lower cost.

**Customs Union:** A group of nations that agrees to eliminate barriers among themselves and adopt a unified system of external trade barriers.

**European Economic Community (EEC):** The original European common market of six countries created by the Treaty of Rome in 1957.

**European Union (EU):** Successor to the European Economic Community (EEC). Single market and customs union with a freedom of movement of labour and capital.

**Free Trade:** In keeping with the laissez-faire notion that government intervention in the economy undermines efficiency and overall wealth, free trade removes protectionist measures (tariffs, quotas, etc.) that are designed to insulate domestic producers from international competition.

**Free Trade Agreement (FTA):** A treaty between two or more countries, establishing a free trade area.

**Most favoured nation (MFN):** A trade principle under the WTO, whereby imports from a nation are granted the same degree of preference as those from the most preferred nations.

**Protectionism:** The doctrine or practice of restricting international trade to favour home producers, by tariff, quotas, or by non-tariff barriers.



**Quotas:** A limited quantity of a particular product which under official controls can be produced, exported, or imported.

**Single Market:** an association of countries trading with each other without restrictions or tariffs.

**Tariffs:** a tax or duty to be paid on a particular class of imports or exports.

**Trade Rate Quotas:** Tariff quota allocations are calculated based on the quantities available within the tariff quota and the quantity applied for.

**World Trade Organisation (WTO):** where countries negotiate the rules of international trade.

**WTO Rules:** if members don't have an FTA they trade under "WTO Rules".

**WTO Schedules:** WTO members have a list of tariffs and quotas that they apply to other countries.

# Chapter One – Introduction

## 1.1 Brexit: An emotional response and an economic problem

On the 23<sup>rd</sup> of June 2016, the United Kingdom (UK) held a referendum in which it voted to leave the European Union (EU) – now known as Brexit. It is often assumed that as a small state in the South Pacific Ocean, New Zealand is extraordinarily vulnerable to political and economic global shocks and susceptible to changes to the rules and institutions that govern the international political economy and international trade (Fox, 1959; Köllner, 2018; Sam, 2015). The UK's impending departure could have severe economic and political implications for New Zealand with respect to agricultural trade, as the rules governing trade access into the EU are being rewritten.

The changes to the rules governing the international political economy include a proposal to split Trade Rate Quota's (TRQ's) down historical lines (Honey, 2017). Further, with no 'divorce' plan governing trade between the UK and the EU post-Brexit agreed to, New Zealand's global supply chain is under threat, with increased tariffs and customs confusion (BusinessEurope, 2018). In addition, the impact upon the UK's economy could inspire even greater problems for New Zealand agriculture exporters. New Zealand has a heavy reliance on agriculture in which they maintain a comparative advantage (Finny, 2018, pp. 26-27; Woodfield, 2008, p. 7). In 2018, New Zealand is the world's 12<sup>th</sup> largest agriculture exporter (by value) (MPI, 2018).

New Zealand and the UK have a strong political relationship established during colonial times. This consequently formed the basis of the ensuing political and trade relationship with the EU, when the UK joined the European Economic Community (EEC), the EU's predecessor, in 1973 (Woodfield, 2008, p. 7). Joining the EEC forced New Zealand to adapt its economic systems and political identity to adopt a competitive trading position through becoming a market liberal economy (Keating, 2016; McNeill, 2016; Woodfield, 2008, p. 7). Now highly regarded worldwide as an exporter and trading nation, the historical choices by the UK in the late 20<sup>th</sup> century helped create New Zealand's contemporary trade identity (Hoadley, 2017; Keating, 2016).

The EU is the world's largest single market with 500 million consumers and the largest trader in the world of manufactured goods and services (Obadovic, 2018, p. 10). Currently, New Zealand and the EU's trade relationship is governed by the most-favoured-nation (MFN) principle and country specific tariff quotas (TRQ's), established through a series of negotiations in the General Agreement on Tariffs and Trade (GATT) (Obadovic, 2018, p. 2). As noted in Figure 1, The EU is New Zealand's third largest trading partner (MFAT, 2018d) despite New Zealand only having limited market access

as agriculture is one of the most protected industries in international trade (Hoadley, 2017; Woodfield, 2008).

Figure 1. Top Export Partners for New Zealand Goods and Services

### Top export markets for year ended June 2017

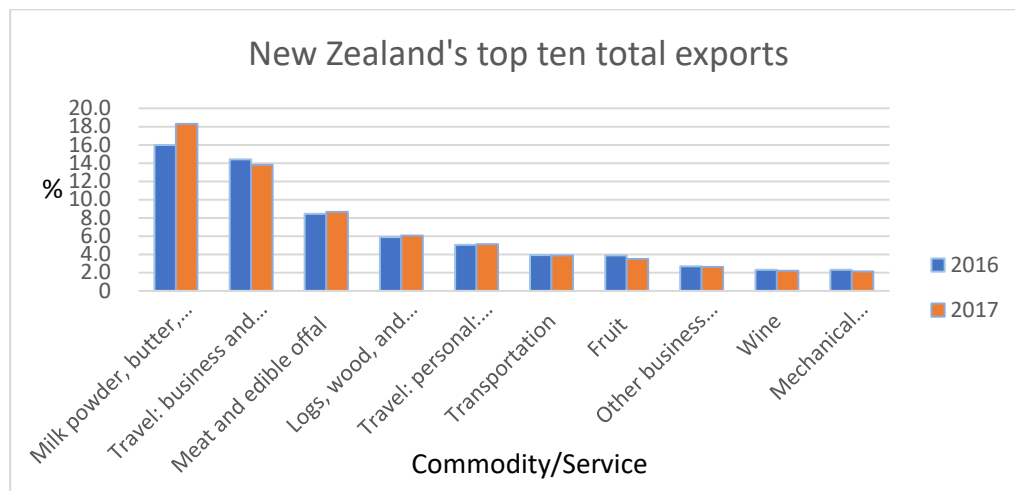


(StatsNZ, 2018)

The agriculture sector is important to the EU, as it continues to be a relatively large producer and exporter of agricultural products (Obadovic, 2018, p. 10). The Common Agriculture Policy (CAP) is a protectionist policy measure employed to protect the EU's domestic agriculture producers and market, but CAP compromises small states agriculture trade through distorting the international market (Woodfield, 2008) (Finny, 2018, pp. 26-27). Large states tend to dominate smaller states in the international political economy by leveraging access to markets to coerce smaller states to accept the status quo (Drezner, 2008, p. 20). The Single Market and a common trade policy have made it possible for the EU to leverage between opening markets and protecting its interests in agriculture (Obadovic, 2018, p. 10).

This has created an asymmetrical power imbalance between the EU and New Zealand (Hoadley, 2017; Jones & Commonwealth, 2013; Woodfield, 2008). New Zealand is one of only six World Trade Organisation (WTO) states without a concluded Free Trade Agreement (FTA) with the EU (MFAT, 2017a). There are high levels of internal opposition to opening the EU's agriculture market to New Zealand due to New Zealand's comparative advantage in agriculture trade (Woodfield, 2008). New Zealand has had to fight to secure and maintain access to markets for agriculture exports – meat, dairy products and fruit – shown in Figure 2 to be their main sector of exports, due to the constraining parameters of protectionism in agriculture (Woodfield, 2008, p. 7).

Figure 2. New Zealand's Top Ten Total Export Goods



(StatsNZ, 2018)

Small states have often proven themselves to be adaptable to changes in the international system due to an inherent ability of consensus that larger states are unable to replicate due to their size (Katzenstein, 1985) (Jones & Commonwealth, 2013, p. 1). But small states must anticipate, prepare and respond accordingly to these global shocks (Buchanan, 2010). New Zealand needs to adapt to the changing international political economy, while simultaneously evolving its relationships with both the UK and EU as they undergo changes to their respective regional and domestic politics. Subsequently, New Zealand will have to navigate considerable uncertainty to avoid the negative implications created, so that New Zealand can embrace the opportunities that have presented themselves via the process of 'Brexit'.

With the UK initiating the process of Brexit, tension has emerged between the UK and the EU due to the competing objectives and interests of what the final withdrawal treaty of Brexit will look like. The UK needs to make Brexit a success, while the EU needs to prove that Brexit was a mistake (Barber, 2018; Three, 2017). These competing objectives have opened up a trade opportunity with both the UK and the EU via FTA's. There is also the potential to influence a reformed CAP. This thesis explores the short and long term diplomatic and trade risks and opportunities for New Zealand's agriculture sector and examines how New Zealand should position itself to maximise leverage and influence the subsequent international trade negotiations that have resulted from Brexit disrupting the international political economy.

## **1.2 Relevance**

The international political economy is in the process of rewriting the rules due to Brexit. Whether these impacts are positive or negative will depend on how New Zealand government and businesses adapt to Brexit.

Creating greater market access into the EU would be an amazing coup for New Zealand, as it is a huge, high value market that has relatively untapped potential (Patterson, 2018a). New Zealand has been unable to make much headway with the EU beyond their initial MFN status, as it is a difficult task to assimilate New Zealand competitive agricultural exports into an FTA with the EU's heavily protected agriculture market (Obadovic, 2018, p. 199). This thesis comes at a critical and useful time as the New Zealand government is being confronted by the potentially damaging impacts of Brexit, while also examining how New Zealand should position themselves to maximize their leverage and influence the subsequent international trade negotiations with the EU and future trade negotiations with the UK.

## **1.3 Research aim and objectives**

My interest in this topic arose through seeking to understand what the key opportunities and risks are to New Zealand's agriculture sector post-Brexit. Brexit was initiated by the UK, a traditional and significant trade partner of New Zealand. Originally my thesis was limited to the bilateral relationship between these two parties as initial commentary suggested Brexit might merely be a period of critical disruption to the international political economy (Barber, 2016; Brinded, 2016). However, in the months that followed, Brexit has been reinterpreted as a vital trade negotiation opportunity for New Zealand. Brexit has opened up new trade opportunities, not only restricted to the UK, but also including the EU (MFAT, 2018b; Patterson, 2018b). Through the process of conducting interviews with key political and economic actors in international agriculture trade, specifically with a background in New Zealand, UK and EU agriculture trade policy, and analysing the key themes which have emerged, this thesis evolved to focus on understanding the challenges of achieving an adaptive and flexible New Zealand trade policy in response to the tensions that have erupted due to the 'divorce' of the UK and the EU.

While New Zealand does not want to take advantage of Brexit or the situation that the UK and EU have found themselves in, New Zealand does not want to be adversely affected by Brexit either (Honey, 2017; Nine, 2018; One, 2017; Seven, 2017; Two, 2017). Therefore, negotiating favourable FTA's with both the UK and the EU is a way to mitigate the negative impacts that Brexit may cause.

Using a case study approach which includes interviews, this thesis explores the short and long term diplomatic and trade risks and opportunities for New Zealand's agriculture sector providing insights into the complexities of the Brexit negotiations and their potential outcomes. It also critically examines how New Zealand ought to position itself to maximize leverage and influence the future and subsequent international trade negotiations with the UK and EU that have resulted from Brexit.

This thesis has four key objectives within the broad research aims above:

1. To review the literature of small state trade and determine in what ways and to what extent we might expect global forces and larger economic and political powers to influence New Zealand.
2. To interview key economic and political actors in international agriculture trade, specifically with a background in New Zealand, UK and EU agriculture trade policy, and document how New Zealand's agriculture sector is responding to Brexit.
3. To determine the threats and opportunities posed by Brexit for New Zealand agriculture trade.
4. To discuss the implications of the research findings and identify opportunities for New Zealand to re-assess its relationship with the UK and EU around agriculture trade in beneficial ways.

## **1.4 Methodology**

The research was conducted within the inquiry paradigm of qualitative research methods using a case study to design the research (Yin, 2009). The data was collected through semi-structured interviews with grey literature and mass media supplementing my understanding of the case. The interviewing method is discussed along with the ethical considerations at 1.4.2. The theory behind the research is important to understand and consider as it provides a "framework within which social phenomena can be understood and the research findings can be interpreted" (Bryman, 2012, p. 20).

### **1.4.1 Research approach**

The objective of qualitative research is to "understand the event, circumstance or phenomenon under study" (McNabb, 2004, p. 341). In qualitative research, non-statistical investigation techniques are employed to gather data that allows the researcher to intimately understand the phenomena studied (Bryman, 2012). This allows researchers to access people's perceptions and understandings of events and their environment (Bryman, 2016). Austin (2014) notes that perceptions that are established through qualitative research are important help deepen understanding of the issue. Therefore the researchers' job is to capture people's perceptions and interpret or analyse the findings (Austin & Sutton, 2014). Furthermore, according to Bryman (2012) the epistemology underlying

qualitative research involve two central tenets: '(1) face-to-face interaction is the fullest condition of participating in the mind of another human being, and (2) you must participate in the mind of another human being (in sociological terms' "take the role of the other") to acquire social knowledge' ((Lofland and Lofland 1995:16) cited by Bryman (2012:399)). Qualitative research allows the researcher to analyse and comprehend what is actually happening in naturally occurring settings and to understand experiences from a variety of viewpoints (Silverman, 2006).

This research involves a case study within a qualitative methodological paradigm. A case study is a detailed and intensive analysis of a single phenomenon, with the researcher concerned solely with the complexity and particular nature of the case in question (Bryman, 2016, p. 66). Robert Yin's case study method, first outlined and published in his 1984 book *Case Study Research*, was used to establish the parameters of data collection and analysis. Yin (2009) distinguishes five different types of case studies made by writers, including the critical case, the extreme or unique case, the representative or typical case, the revelatory case and the longitudinal case (Bryman, 2012, p. 70). As established by Yin, case studies are the "*preferred strategy when 'how' or 'why' questions are being posed, when the investigator has little control over events and when the focus is on a contemporary phenomenon within some real-life context*" (Yin, 2009, p. 1).

Bearing the insights of Austin, Bryman and Yin in mind, I was conscious that Brexit is a contemporary phenomenon, of which I had no control over and there was currently little published peer reviewed secondary literature on Brexit. The research occurred at a single point in time, as in the context of this study Brexit could be described as an extreme or unique "case" that holds an intrinsic interest (Bryman, 2012, p. 70). Many people are following the potential impacts Brexit may have on the international political economy. Therefore, qualitative research would enhance understanding of Brexit through a detailed and intensive analysis of the case from the perspective of New Zealand's trade policymakers and advisors.

While I am not involved in Brexit negotiations, through a Parliamentary and Business scholarship I was able to travel to the UK and interview key political and economic actors from amongst New Zealand's trade policy "elite". All fifteen of the interviewees had an intimate understanding of international agriculture trade policy and were actively engaged in assessing the impact of Brexit on the international political economy. Nine out of fifteen informants had a specific interest of how Brexit would impact New Zealand. Therefore, through qualitative research I could gain a deep comprehension of the complexities of Brexit negotiations and New Zealand's adaptive trade policy through understanding their perspectives.

### **1.4.2 Data Gathering Method**

This section details the sampling strategies used to recruit respondents, provides an overview of the characteristics of respondents and outlines the procedures used for interviews. Interviewing was conducted with Human Ethics approval from University of Canterbury, to ensure confidentiality and ethical treatment of data in collection and analysis. Ethics approval was gained on the 18th of October 2017 under low risk requirements, from the University of Canterbury, Human Ethics Committee (HEC), reference number HEC 2017/88/LR (Appendix 1). The research project is low-risk as there was no risk of deception, threat, invasion of privacy, mental, physical or cultural risk or stress and did not involve gathering personal information of a sensitive nature about or from individuals. Appendix 2 contains the form sent to the respondents summarising the research project (as it was in October 2017) and Appendix 3 contains the consent form.

Due to the politically sensitive nature of the results and Brexit remaining a fluid situation, it was decided that the respondents would remain anonymous, as was provided for in the consent forms.

#### **1.4.2.1 Semi-Structured Interviews**

Data collection began mid-2017 and concluded mid-2018 and involved semi-structured interviews with ten economic and political respondents drawn from the policy community in New Zealand, and five from various parts of Europe. Most of these respondents are New Zealanders, as the case study is more concerned with how New Zealand is responding and positioning itself post-Brexit. Snowball referral was adopted to reach as many of these respondents as possible as “networks of individuals are the focus of attention” (Bryman, 2012, p. 63) due to their inside knowledge of the phenomena. Gaining access into the international trade world can be difficult and one often needs an introduction in order to gain access. However, during interviews, respondents would offer to contact their colleagues without prompting. Through these introductions I was able to collect and correlate a large amount of qualitative data.

Semi-structured interviewing was chosen as the primary method for data collection as Bryman (2012) argues that “conversational interview style makes the study more ecologically valid than research using more formal instruments of data collection” (Bryman, 2012, p. 63). Using semi-structured interviews opposed to structured interviews or focus groups gave me an insight into what the respondent “sees as relevant and important” (Bryman, 2012, p. 63). Nine questions were asked to determine how respondents perceived New Zealand’s agriculture sector was responding to Brexit. At Appendix 4 these questions are outlined in full. Asking a general, but flexible, set of questions, and being able to ask follow up questions depending on the respondent’s response allowed for detailed



and rich answers that reflected a variety of viewpoints (Bryman, 2012, p. 63). All respondents were encouraged to expand further on their answers (Bryman, 2016). The interviewing was not intrusive; those who agreed to take part in the study were asked eight to nine questions which took 30 to 60 minutes.

I was concerned with validity such as respondent validation and triangulation (discussed below at 1.4.3.1) that was conducive to this case study. Interviews continued until no new information was being shed on the topics, all answers were written down during the interview and transcribed immediately after the interview had ended. The transcript was then sent to the respondents for their approval before being returned to me with minor adjustments or corrections.

### 1.4.3 Validity of the Interview Sample

As previously explained, the final sample of respondents interviewed were political and economic actors with an interest in international agriculture trade policy. Fifteen interviews were conducted; ten were with New Zealanders and the remaining five respondents identified as British. Many of the British respondents and a few New Zealanders have close ties to the EU. Six respondents work in government, two work in business, four work in government and business and the final three work in academia. Interviews continued until no new insights other than minor reflection, were being gained.

*Figure 3. Summary of Respondents Nationality and Employment Sector*

<b>Respondent</b>	<b>Nationality</b>	<b>Employer/Sector</b>
Respondent One	New Zealander/ European	Government
Respondent Two	New Zealander	Government and Business
Respondent Three	British/ European	Government and Academia
Respondent Four	British	Government and Academia
Respondent Five	New Zealander	Business
Respondent Six	British	Business
Respondent Seven	New Zealander	Government
Respondent Eight	British/ European	Academia and Government
Respondent Nine	New Zealander	Government and Business
Respondent Ten	New Zealander	Business
Respondent Eleven	New Zealander	Government

Respondent Twelve	British	Academia
Respondent Thirteen	British/ New Zealander	Academia
Respondent Fourteen	New Zealander	Business
Respondent Fifteen	New Zealander	Government and Business

Source: Author

#### 1.4.4 Limitations of Research Method

There are some criticisms of a case study within the paradigm of qualitative research that must be considered. For example, how well a case study fares against the criteria of reliability, replication and validity, which are used for the evaluation of social research (Bryman, 2016, p. 46). In the case of qualitative research, “concerns about external validity and the ability to generalise do not loom as large” (Bryman, 2012, p. 203), as they do in quantitative research. Qualitative researchers can still employ the terms of reliability and validity, in a similar fashion to quantitative researchers through adjusting the meanings to suit qualitative research. There are also alternative criteria which qualitative researchers argue should be used in such cases; trustworthiness and authenticity (Bryman, 2012). In this instance, internal validity that flows from quantitative research was used, and respondent validation and triangulation from the alternative criteria of credibility was used.

In order to make sure that there was internal validity, whereby there has been a good match between the researcher observations and the theoretical ideas developed, respondent validation and triangulation was employed (Bryman, 2012). Respondent validation adds to the trustworthiness of the research as the researcher must have their understanding corroborated by the person interviewed. If the researchers and the respondents understanding matches and is found to be acceptable by the respondent, credibility of the results is achieved. In this research, I sent the transcripts back to the respondents in order to receive confirmation that what had been discussed during interviews had been correctly understood. This increases validity as it contributes to greater confidence, on behalf of the researcher, in the findings (Bryman, 2012). The results were also compared with other grey literature and media reports.

To further validate research findings, and demonstrate robustness of research, triangulation was also adopted alongside respondent validation. Triangulation refers “to the use of multiple methods or data sources in qualitative research to develop a comprehensive understanding of phenomena” (Carter, Bryant-Lokosius, DiCenso, Blythe, & Neville, 2014, p. 545). There are several types of triangulation

including method triangulation, investigator triangulation, theory triangulation, and data source triangulation. In this case method triangulation was employed because method triangulation involves the use of use of multiple methods of data collection about the same phenomenon and may include interviews, observation and field notes (Carter, Bryant-Lukosius, DiCenso, Blythe, & Neville, 2014, p. 545). Validity is achieved through method triangulation as it allows for findings to be cross-checked (Bryman, 2012). In this study, multiple data sources were collected and then triangulated by comparing interviews with respondents that provide unique “insider” perspective and understanding of how Brexit may affect New Zealand agriculture. As was mentioned above in 1.4.2.1 interviewing continued only until no new insights were provided and I was able to cross-check the findings across the multiple data sources.

### **1.4.5 Methodology Conclusion**

As stated in 1.3, the aim of this thesis is to explore the short and long term diplomatic and trade risks and opportunities for New Zealand’s agriculture sector through providing provide insights into the complexities of the Brexit negotiations and their potential outcomes. It also critically examines how New Zealand ought to position itself to maximize leverage and influence the future and subsequent international trade negotiations with the UK and EU that have resulted from Brexit. In 1.4, I detail and justify why this case study was conducted through the paradigm of qualitative research, specifically the semi-structured interviews with fifteen political and economic respondents. I argue that due to the contemporary nature of Brexit and its status as a unique phenomenon, research was required that explores a specific point and place in time by drawing on respondents’ perspectives. The data analysis of the respondent’s perspectives occurs in Chapter 4 and the implications from the data in Chapter 5. The respondents offer a targeted perspective on Brexit and drawing from the themes present in the interviews, possible policy options for an adaptive trade policy employed by New Zealand that may minimise the impacts of Brexit on New Zealand’s agriculture sector.

### **1.5 Thesis structure**

This thesis progresses in six chapters. In Chapter 2, I critically review theories pertaining to small states and how they react when there is a change in the international political economy (Katzenstein, 1985; Keating, 2016; Lynch, 2013). I also examine how negotiators from small states can maximize their leverage and influence in international asymmetric negotiations (Finny, 2018; Hoadley, 2017; Jones & Commonwealth, 2013). Finally, I discuss how anticipatory governance is vital for small states to manage phenomena (Boston, 2018). These theories discuss the intricacies of being a small state in today’s modern world, and how a small state should strive towards using their nature as an asset rather than a hindrance.

Chapter 3 presents a history of New Zealand's agriculture trade. New Zealand's colonial past with the UK and New Zealand's subsequent relationship with the EU is explored (Saunders, 2016). A review of CAP, how it came into being and what the implications are in the broader international political economy is explained (Markovic, Njegovan, & Pejanovic, 2012). I also go into detail about how New Zealand re-orientated itself after the UK joined the EEC and what New Zealand did to become an internationally competitive exporter of agriculture goods (Gibbons, 2008; Keating, 2016; McNeill, 2016). In conclusion, this chapter briefly details why Brexit happened and what has occurred in the international political economy immediately thereafter (Caporale, Gil-Alana, & Trani, 2018; Ronald Inglehart & P Norris, 2016; Shipman, 2016). Ultimately, reviewing the history of New Zealand's agriculture trade contextualizes current relations and gives a deeper understanding of why Brexit should be studied in conjunction with New Zealand's agriculture trade sector.

Chapters 4 and 5 form the body of this thesis that seeks to understanding the challenges of responding to the tensions that have erupted due to the 'divorce' of the UK and the EU through an adaptive and flexible New Zealand trade policy. Chapter four examines findings from key respondents and breaks them down into key themes. The key themes of uncertainty, New Zealand's relationships with the UK and the EU and potential impacts explain the short and long term diplomatic and trade risks and opportunities for New Zealand's agriculture sector. Through providing insights into the complexities of the Brexit negotiations and their potential outcomes, Chapter Five critically examines how New Zealand ought to position itself to maximize leverage and influence the future and subsequent international trade negotiations with the UK and EU that have resulted from Brexit.

In Chapter 6, I conclude the thesis by summarizing the research analysis and responding to the research aim. I also offer potential avenues of research and argue that greater attention should be paid to New Zealand's trade policy due to its impact on New Zealand society. Finally, I conclude that New Zealand's nature as a small state can be an asset rather than a hindrance if effectively utilized.

## **1.6 Summary**

This introductory chapter opened by arguing that by the UK initiating the process of Brexit, there is now a significant trade opportunity with both the UK and the EU via FTA's. If this process is managed appropriately, New Zealand will be able to mitigate the effects of Brexit on New Zealand's agriculture sector. I outlined the research aim of exploring what the short and long term risks and opportunities are to New Zealand's agriculture sector and what New Zealand needs to do to position themselves to maximize their leverage and influence the subsequent international trade negotiations that have resulted from Brexit disrupting the international political economy. I defined the research objectives and outcomes and justified the methodological approach used to gather data and analysis of this

case study. In the next chapter, I consider the theories that pertain to small states and how they react when there is a change in the international political economy.

# Chapter Two: Agriculture Trade Policy; Understanding Issues for Small States

## 2.1 Introduction

This chapter critically reviews theories pertaining to small states. Firstly, how small states react when there is a change in the international political economy is discussed (Katzenstein, 1985; Keating, 2016; Lynch, 2013). This is accomplished in conjunction with examining how small states can maximize their leverage and influence in international asymmetric negotiations (Finny, 2018; Hoadley, 2017; Jones & Commonwealth, 2013). Finally, anticipatory governance is discussed, an emerging theory of policy-making that is vital for small states to manage unexpected events in the international political economy (Boston, 2018). These theories discuss the intricacies of being a small state in today's modern world, and how a small state could strive towards using their nature as an asset rather than a hindrance when reacting to global forces and the subsequent opportunities that may present.

## 2.2 What is a Small State?

The state is considered to be the most central concept in the study of politics, and yet the definition of a small state remains elusive (Burnham, 2009). Fauriol, East, Vital, Von Daniken and Hendersen have discussed three common variables; population, geography and GDP as factors determining whether a state is 'small' (Thornton, 2006, p. 14). Military strength is another variable other scholars have suggested, along with level of industrialisation and energy efficiency (Sam, 2015, p. 4). Katzenstein (1985), finds a small state is one that is vulnerable to global forces over which 'small' states have no control over (Katzenstein, 1985).

Sutton (2011, p.141) argues that the definition and framework advanced by the institutions of the Commonwealth Secretariat and the World Bank is the most satisfactory. These institutions formed a working group and developed three areas to be used when one is looking to determine whether to label a state small. They first established a working definition of a "small state as having a population threshold of less than 1.5 million" (Sutton, 2011, p. 147). However, the institutions also added a caveat on the definition stating that "no definition, whether it be population, geographical size or GDP, is likely to be fully satisfactory. In practice there is a continuum, with states larger than whatever threshold is chosen sharing some or all of the characteristics of small countries" (Sutton, 2011, p. 147). Secondly, they found economic vulnerability is a key variable of small states, when compared to large states (Sutton, 2011, p. 147). Finally, the working group found that the main problem for small states is the impact of globalization and the fear of marginalisation in the international political economy (Sutton, 2011, p. 147).

However, Sutton and Payne (1993) believe the concept of smallness is relative, therefore the size of a state “will continually undergo revision according to the configuration of the international system at the time and the particular characteristics of the small state which are being examined” (Sutton, 2011, p. 147). What can be said is that the only consistent conclusion that academics have reached is that there is ‘more fragmentation, than consensus’ (Long, 2017, p. 1).

Traditionally, New Zealand has been thought of as a small state (Sam, 2015, pp. 407-420) and per the Commonwealth Secretariat/World Bank and Katzenstein, New Zealand is economically vulnerable, and does not have control over global forces. New Zealand’s perception of themselves is that of a small and trade-dependent nation (Köllner, 2018, p. 442). The Ministry of Foreign Affairs and Trade (MFAT) website states “New Zealand is a small country with an economy that is highly dependent on trade. New Zealand’s share of world trade has held steady at around 0.36% since 1990” (MFAT, 2018f). By focusing on perception, the strict (and often conflicting) parameters of the small state definition are eliminated. According to Hey, a state only need to be considered small by the states citizens and institutions of that country, or another country, to fulfil that capacity (Hey, 2003, p. 3).

Henrikson (2001), suggests combining the objective criteria of population size and the subjective criteria of perception as a way to define a state. According to Henrikson, a state must be quantifiably small but must also ‘feel’ and ‘act’ small (Henrikson, 2001, pp. 61-62). Vital (1971) offers another contrasting but complementary viewpoint by suggesting a state is ‘small’ depending on the position it inhabits within the international system (Vital, 1971, p. 9). Therefore, when one compares two states that are interacting, whether a state is small or not becomes apparent due to the power imbalance.

## **2.3 Small State Responses to the International Political Economy**

The traditional stereotype of the small state is that of a helpless pawn on the international stage due to their limited political and economic power (Fox, 1959). Small states are typically portrayed as being economically vulnerable as their size is considered the determinant of their wealth (Ingebritsen, 2006, p. 11). According to Briguglio, the economic characteristics of small states are high economic openness, high degree of export concentration and high dependence on strategic imports (Briguglio, 2014, p. 3). These characteristics result from small domestic markets and economic size plus a lack of natural resources (Briguglio, 2014, p. 3).

Small states are also unable to plan for long-term sectoral changes due to their economic openness and are therefore at the mercy of the international markets and any disruptions that may occur (Katzenstein, 1985). The vast majority of small states lack economic influence and are price takers in

export markets (Tonurist, 2010, pp. 8-29). Being unable to exercise control over the condition or regulation of international political economic markets, coupled with heavy reliance on them to maintain a living standard for their citizens, exposes small states to global shocks. Ultimately, economic theory assumes that small states are vulnerable to the international political economy.

Handel (1981), asserts that although small states are generally more economically vulnerable than larger states, they are never entirely defenceless (Handel, 1981, p. 301). For example, according to Baldacchino, being 'open' can actually be used as a source of strength if utilised appropriately, as it encourages small states to be internationally competitive in the world markets (Baldacchino & Bertram, 2009, p. 147). In addition, while the larger more powerful states are the main actors on the world stage, small states are not peripheral. Small states are flexible and can manoeuvre quickly when confronted with tension and changes in spheres of influence in the international political economy, a derivative power that enables them to obtain, commit and manipulate the power of more powerful states (Handel, 1981, p. 301).

Small states also choose a variety of economic and social policies to remain adaptable (Katzenstein, 1985). Katzenstein theorizes that when a small state is exposed to the pressures of global forces over which they have no control, they adapted to the change by relying on different variants of democratic corporatism (Ingebritsen, 2010, p. 26). Using the strategies of international liberalization and domestic compensation, these small states have managed to respond to adverse economic change (Ingebritsen, 2006, p. 26). These strategies include having a "homogeneous population, closely integrated systems and flexibility in political and economic organization" (Ingebritsen, 2010, p. 315). Small states are capable of rapid change and are able to develop policy and have a resolve that cuts across political party lines when confronted with global forces, something inherent to their nature (Baldacchino & Bertram, 2009, p. 143).

Despite confronting many of the same economic pressures other small states encounter, New Zealand has not maintained the same model of corporatism as its European counterparts (Arsenault, 2017, p. 164). New Zealand adopted the market competition economy during the 1980's to reduce their vulnerability to the global economy (Keating, 2016, pp. 3-41; McNeill, 2016, p. 171). The market competition model (or market liberal) is a mode of adaption that embraces global competition and reduces the state to policy-takers of the international community (Keating, 2016, p. 9). Ultimately it requires that the state accept international economic cycles and the subsequent rise and fall of incomes.

However, New Zealand's political system does exhibit key fundamentals of the corporate states that Katzenstein's initially analysed, particularly the emphasis on pragmatism and consensus (Baldersheim, 2016, p. 229). Despite abandoning some of the harsher market neoliberal policies, successive NZ governments (whether National or Labour) have essentially not deviated from the path



set out in the 1980's. Changes in government "do not lead to abrupt changes of policy or institutions - continuity is the name of the game" (Baldersheim, 2016, p. 230).

## **2.4 The reality of being small and distant**

Adopting domestic social and economic modes of adaption is only one approach utilized by small states to avoid the worst impacts of global forces. Small states "tend to possess a trade focus in foreign affairs" as this enables them to accomplish their own goals (Thornton, 2006, p. 22). Small states struggle to be heard and have their interests taken into account by the wider international community if they have not been endowed with a vast quantity of natural resources or are not seen as strategic (Lynch, 2013).

The soft power a small state possesses can help to alleviate alienation on the global scene through gaining influence and leadership in specific areas. To achieve influence and leadership status, small states must have an ability to impress "when there is no scope to impose, to earn respect regardless of limited resources and to illuminate lesser known paths that others large and small might usefully explore" (Lynch, 2013, p. 20). According to Lynch, a former diplomat, the traits nations display are no different to the standards of good conduct in personal or professional life that encourages others to hold someone in high regard, or not (Lynch, 2013, p. 20). Small states also engage in international organizations and draw on international laws and norms to enhance their leverage and independence in the world system (Hey, 2003, p. 303).

Lodge (1982) discusses the importance of soft power in international politics and how it can impact trade relations. Soft power is typically defined as the "power to influence the environment of international affairs through such intangible factors as culture, values and ideas. Soft power is less direct than hard power but sometimes more effective" (Balaam & Dillman, 2011). It was found that New Zealand's abilities in diplomacy, their ties to the UK and approach to the rest of Europe were what helped New Zealand to secure special access for its dairy products and maintain New Zealand interests in the European Union (Lodge, 1982). Lodge recommends that in order to be successful in negotiating economic access into larger markets, small states have to involve politics to gain bargaining power (Lodge). It was concluded that the soft power and diplomacy skills displayed by New Zealand's diplomats and officials in the 1970's contributed significantly to achieving the level of access awarded to New Zealand by the EU (Obadovic, 2018, p. 3).

Similarly, Gibbons (2008) argues that New Zealand's interests were only safeguarded due to historical close ties to Europe and sentiment by the British public and European politicians (Gibbons, 2008). This was despite having extraordinarily different views on agriculture and trade (Gibbons, 2008, p. 94). He ultimately argues that the links formed via 'people to people' and by diplomats are vital to New Zealand's relationship with Europe and the EU as these links create common ground that

encourages cooperation, which in turn allows economic relationships to grow (Gibbons, 2008, p. 117). Gibbons strongly states that New Zealand diplomats and officials have to work very hard to protect and promote New Zealand's interests overseas (Gibbons, 2008, p. 94). This point has more salience when coupled with Lodge's (1984) observation that frequently small states do not have the same level of access to resources as larger states, to maintain their presence internationally (Lodge, 1982, p. ix). Frequently, small states will rely on allies for information, as they cannot afford to maintain embassies in every country (Lodge, 1982, p. x).

## **2.5 Negotiating Against the Odds**

As established above, small states have tools in their arsenal to minimise disruptions from global forces. What is of interest is whether this logic follows into asymmetric relationships, with the most obvious example being in situations where a small state is negotiating a trade agreement with a large state or bloc. In that situation could a small state, such as New Zealand, which in comparison to the corporatist states that interested Katzenstein, is geographically remote and more liberal in economic orientation, negotiate a fair and equitable trade deal with a far larger party, such as the UK or the EU?

International trade must be viewed as the result of 'a history of political bargains among states of differing power capabilities' (Bilal, Lombaerde, & Tussie, 2011, p. 1). These bargains have created a highly specific and asymmetric set of rules – with historical alliances continuing to sway trade (Bilal et al., 2011, p. 1). Layers of rules and regulations that are beneficial towards industrial countries and sectors are created by these bargains and can place a severe handicap on developing countries and sectors (Jones & Commonwealth, 2013, p. 1). It was hoped that the World Trade Organisation (WTO) would correct the power balance. Unfortunately, consensus was lost due to competing interests and states continuing to align themselves with their natural partners (Bilal et al., 2011, pp. 1-2).

Trade and its corresponding asymmetry are constantly in flux and therefore impacts the negotiation process of a trade agreement. Asymmetric trade negotiations are an awkward truth for New Zealand but a well-established fate. This is because small states have a greater dependence on the larger state's markets (S. Hoadley, 2012, p. 8) (Bilal et al., 2011). However, whether small states are doomed to the ever-changing whims of larger states is a matter of debate. Jones (2013) argues in her guide *"Negotiating against the odds: a guide for trade negotiators from developing countries"* that 'the less powerful party in an international negotiation is not necessarily at the mercy of a more powerful party' (Salacuse 2000, p.257). The guide sets out to answer the question "how can negotiators from small developing countries maximize their leverage and influence in international negotiations" (Jones & Commonwealth, 2013, p. 2). While Jones does acknowledge and outline how negotiations are often constrained by the rules that govern trade negotiations, she states that

“experience shows us that a smaller party can augment its power through the skilful use of negotiating strategies and tactics” (Jones & Commonwealth, 2013, p. 63). Because negotiations in international trade are so important to small states, they have had to learn to adapt to global forces they have little to no control over and influence them in ways that large states do not.

In 2014, Jones published a working paper titled, “When do weak states win?”. Here, Jones expands on her argument that small states are not as powerless in the international political economy as is first perceived. Here, she looks at 10 experiences of asymmetric trade negotiations, starting from the 1960’s involving small developing nations from the ACP (Africa, the Caribbean and Pacific) and powerful European states (Jones, 2014). Starting with the classic assumption, that the more powerful state will achieve their objectives, Jones researched the 10 episodes of negotiations, but found that there was a disparity between the results and the assumption. In four of the ten negotiations, the powerful European state did not achieve all the outcomes that they set out to. Rather there was “a substantial and important gap between what European countries wanted and the final negotiated outcome” (Jones, 2014). In negotiation literature this is called “the structuralist dilemma” ((Zartman, 1997) cited by Jones, 2014, p 3). Jones then asks how the larger party (in this case Europe) who objectively held all the power, failed to see all of their interests met in the aforementioned four negotiations (Jones, 2014).

Through her research, she establishes that if three conditions are held constant, “small developing countries can exert substantial influence even in a profoundly asymmetric encounter” (Jones, 2014, p. 1). These conditions are:

1. The small state must be able to walk away from the negotiation at no cost.
2. Where the small state is considered to be highly strategic by the large state, it can use this as a source of leverage.
3. The small state must have the political leadership and technical skills to deploy an astute negotiating strategy.

If these conditions hold and small states accurately respond to the international relationship while employing an astute negotiation strategy, then small states can walk away from the negotiating table with their own demands met.

Both Jones and Bilal offer ways in which small states can either prepare for asymmetric negotiations or manage the asymmetry. Part of Jones’ research for her guide was to gather information from negotiators from small developing countries through online surveys, in-depth interviews, focus-group discussions and detailed studies (Jones & Commonwealth, 2013, p. 3). From this correlated information Jones determined four ways in which to prepare for negotiations: firstly, to invest in

preparation, second to use moves away from the table, thirdly to cultivate political skills and finally that mindset matters (Jones & Commonwealth, 2013).

Bilal offers four recommendations for developing countries to manage the asymmetry: form sympathetic inter-governmental coalitions (such as the G-22, G-3, G-7 and G-90); ally with non-state actors (international non-governmental organizations, civil society); shape international norms to favour the weak by encouraging new norms and forming a new consensus (or new 'epistemic communities'); and finally, despite the circumstances of asymmetry, the weaker state must act (Bilal et al., 2011, p. 13). Another strategy that can be implemented is from the article, *How the Weak Win Wars* by Ivan Arreguín-Toft. While his discussion centres on armed conflict, the idea that larger states can underestimate small states, which allows small states to outmanoeuvre the larger states and 'win the war', can still be applied to trade negotiations (Arreguín-Toft, 2001).

In his book, *New Zealand Trade Negotiations*, Stephen Hoadley reviews the last 50 years of New Zealand's trade negotiations. Hoadley offers eight phases of trade negotiations, which he argues "simplifies the evolution of New Zealand's often protracted and complex trade liberalization negotiations" (Hoadley, 2017, p. 5). Using the case studies of New Zealand negotiating trade access with the UK, United States, Japan and China, Hoadley demonstrates how negotiations develop and progress throughout the eight stages, as listed below (Hoadley, 2017):

1. Problem diagnosis
2. Prescription
3. Pre-negotiations
4. Negotiation
5. Legitimation
6. Ratification
7. Implementation
8. Adjustment

Hoadley makes it very clear that the eight phases are not linear, as negotiations and relationships during these phases will often "overlap, move out of sequence, stall and repeat themselves" (Hoadley, 2017, p. 5). Hoadley concludes that a small state can exercise 'issue' power even though their negotiating partner has greater structural power (Hoadley, 2017, p. 8). This means New Zealand can be successful, or even outmanoeuvre, larger more powerful states in trade negotiations. But to do this, small states must be prepared, anticipate issues, use any advantage and manipulate any weakness that becomes apparent (Hoadley, 2017).

## 2.6 Anticipatory Governance

It is important to recognise that the future is full of uncertainties and risks, and that “major, unexpected and hard-to-predict events are inevitable” (Boston, 2018, p. 12). The obsession with certainty and clarity creates an environment encouraging inaction. As a result, the worst impacts that a government, business or individual imagines and wishes to avoid are realized and potential opportunities are squandered.

Uncertainty does not have to be detrimental to a state’s potential. If explored, the uncertainty of the future or a situation can be an asset (Meadu, 2013). Anticipatory governance is defined as “a new model of decision making under high uncertainty based on concepts of foresight and flexibility that uses a wide range of possible futures to anticipate adaption strategies and then monitors changes and uses these strategies to guide decision making” (Quay, 2010, p. 496). Uncertainty is not something to be scared of; rather it helps governments, businesses, societies and individuals make decisions and creates various forms of adaption strategies (Meadu, 2013) (Vermeulen et al., 2013). But a state must have the political will to introduce anticipatory governance (IISD, 2007; Vermeulen et al., 2013, p. 8357). In order to protect a state’s future, governments must be robust, yet have flexible institutions and processes (Boston, 2018, p. 12). Resilience and interconnected dimensions are vital to achieving flexibility of governance, with the ultimate goal being to “embed the future in the present” (Boston, 2018, p. 12). According to Boston, sound anticipatory governance requires policymakers to identify, assess, manage and mitigate multiple risks, while also being legal, honest, legitimate, democratic effective, efficient, fair, accountable and much more (Boston, 2018, p. 15).

As discussed above, New Zealand is vulnerable to economic uncertainties and risks, but is also vulnerable to the risk of “failing to give proper attention to readily detectable threats or fail to pay sufficient heed to major societal trends or emerging opportunities” (Boston, 2018, p. 14). According to Boston, many of “New Zealand governance arrangements, policy settings and regulatory frameworks are appropriately future-focused and suitably anticipatory” (Boston, 2018, p. 17) when looking at the resilience of the New Zealand economy. In his book *Safeguarding the Future*, Boston (2017) sets out to answer how to anticipate and safeguard the future when a state is confronted with populist movements, impatient voters, fake news and powerful vested interests. Boston acknowledges how impossible this seems due to the problematic nature of Brexit. While he offers solutions for sustainability, climate change and natural disasters, he does not offer any specific answers for economic earthquakes. However, Boston does suggest that a “high-level foresight unit in central government or requirements for all departments and major agencies to conduct regular foresight exercises, such as horizon scanning, the identification of creeping problems and the formulation of strategies to address them” (Boston, 2018, p. 20), would be a way to anticipate most problems.

Ultimately, Boston argues that governance needs to move away from 'presentist bias towards more considered, rational, long-term governance' (Boston, 2017, p. 67).

Whether New Zealand businesses are adequately prepared to take advantage of opportunities that present themselves during times of uncertainty is answered in part by Benson-Rea and Mikic (2005). They researched the business relationship between New Zealand and the EU and how New Zealand responds to challenges with specific reference to strategy and marketing issues (Obadovic, 2018, p. 5). It was found that New Zealand businesses who operate within the EU struggle to address current opportunities and new opportunities that may present themselves (Luciano & Mayes, 2005).

## **2.7 Conclusion**

This chapter has contextualized the issue of agricultural trade policy for New Zealand in a post-Brexit world by reviewing the literatures on small states in the international political economy, asymmetric negotiations, and anticipatory governance. These theories discuss the intricacies of being a small state in today's modern world, and how a small state could strive towards using their nature as an asset rather than a hindrance. Taken together, these three approaches suggest small states are able to adapt to adverse disruption in the international political economy through their inherent flexibility and seize upon opportunities that may present. In addition, they provide a framework for thinking about how New Zealand may strategically position itself to leverage the larger states of the UK and EU so that the worst impacts of Brexit are anticipated and mitigated. In the next chapter, New Zealand's agriculture history with the UK and the EU is explored.

# Chapter Three: Understanding New Zealand's Agriculture Trade Relationship with Europe, *A Historical Overview*

## 3.1 Introduction

The purpose of this chapter is to critically examine New Zealand's international agriculture trade history. The chapter consists of two main sections. Firstly, the political and trade relationship between New Zealand, the UK and the EU is historically explored from New Zealand's perspective to contextualise the current relationship. Secondly, a brief overview of Brexit is offered, so that the uncertainty and tensions that New Zealand is operating within are fully understood.

## 3.2 The Colony of New Zealand

In 1840, New Zealand became a colony of the UK when the Treaty of Waitangi was signed (McIntyre, 2012). The UK's commitment to free trade and to colonial New Zealand allowed special access into the UK's market (Saunders, 2016, p. 44). This encouraged exports to become concentrated; by the 1890's, the UK was acquiring two-thirds of New Zealand's exports including non-perishable sheep products, native timber and gold (McKinnon, 2010) (McIntyre, 2012). While the trade relationship between the two states ebbed and flowed, it was not until 1954 that the trade relationship began to significantly dissipate (Saunders, 2016). From 1954 to 1984, the UK's share of New Zealand's merchandise trade fell from over 60% to just above 25% (Saunders, 2016, pp. 3-4). This left New Zealand economically vulnerable due to their dependence on the UK (Woodfield, 2008, p. 9). As the UK moved into Europe's orbit and began to flirt with the idea of becoming part of the European Economic Community (EEC), it was recognized that New Zealand would have to seek out other markets (Saunders, 2016, pp. 3-4).

The EEC is the predecessor to the EU and was formed in 1957 at the signing of the Treaty of Rome (Woodfield, 2008, p. 13). Since its formation, the EEC (and later the EU) have caused problems for New Zealand's agriculture sector, due to the market disrupting policy of the Common Agriculture Policy (CAP). CAP is a protectionist policy that excludes all outside producers from the European market and distorts the international market of agriculture (Nixon & Yeabsley, 2010b). Article 39, (the 'farm income objective') of the Treaty of Rome sets out the aims and principles of CAP (Ockenden, Franklin, & Royal Institute of International, 1995, p. 3). The initial goals were to:

1. Raise the productivity based on implementation of technical progress and development of agricultural production based on optimum use of all production factors.
2. Ensure fair standard of living for all farmers.
3. Secure safety in food supply; as well as

4. Secure prices of agricultural food products acceptable to the consumers (Ockenden et al., 1995, p. 3).

In 1962, the EEC implemented a further three principles - market unity, financial solidarity and community preference - in an attempt to strengthen the agriculture sector even further (Hill & Ebooks, 2012, p. 43). The implementation of this system guaranteed prices and offered import protection and market intervention (Markovic et al., 2012, p. 485).

In 1961, the UK applied to enter into the EEC - but on the condition that they would not join unless New Zealand's vital interests were protected (Woodfield, 2008, pp. 13-15). President de Gaulle of France refused access to the UK but in 1971, on their fifth attempt, the UK reached an agreement with the EEC (Woodfield, 2008, p. 15). New Zealand received preferential access for its dairy goods under Protocol 18 of the Treaty of Accession of the UK, where over five years, butter and cheese exports to the UK were to slowly decline (Obadovic, 2018, p. 20). Sheep meat exports were to have a preferential quota introduced at a later date (Obadovic, 2018, p. 20). New Zealand was the only developed country that was granted this special treatment and received the largest country-specific quotas among all other nations taking part in the negotiation process at this time (Gibbons, 2008; Lodge, 1982; Obadovic, 2018). New Zealand's trade and political relationship with the EU is a direct consequence of the UK interceding on New Zealand's behalf when the UK joined the EEC. New Zealand was able to secure its interests through gaining market access into the EEC's agriculture market and establish important links in Brussels due to the special relationship New Zealand shared with the UK.

However, the UK's accession to the EEC still had huge corresponding economic impacts on New Zealand. The UK's decision to re-orientate towards Europe, and away from its former colonies, makes it one of the most important events in New Zealand's history (Robson & European Economic, 1972). New Zealand had to fight for its life during the 1970s to secure market access in Europe and around the world. Learning how to negotiate and strategize against stronger parties was vital to survival, as was adapting a new internal and economic mode of survival (Robson & European Economic, 1972) (Hoadley, 2017). This event was the beginning of New Zealand's transformation into a liberal market state, with an outward looking view of the world that had a strong focus on foreign affairs and trade, from a small colony in the South Pacific (Thornton, 2006).

### **3.3 A Market Competition Economy**

These changes in the international political economy contributed to New Zealand's internal economic and trade policy transformation. Robert Muldoon's National Government had mismanaged the economy through high public spending, large subsidies and protectionist policies, which had left New



Zealand in huge economic trouble (Gustafon, 2011). In 1979, New Zealand's agriculture subsidies had been at 15% of farm output value (Smith & Montgomery, 2004, p. 107), but the EEC could dictate the world prices of livestock due to their CAP subsidy regime (Nixon & Yeabsley, 2010a). Every time the EEC increased subsidies, world prices fell by the same amount (Nixon & Yeabsley, 2010a). New Zealand faced depressed prices and uneconomic competition (Nixon & Yeabsley, 2010a). In response to the unfavourable international market and losing their traditional trading partner, New Zealand's agriculture subsidies rose to 33% of farm output value at the start of 1984 (Smith & Montgomery, 2004, p. 107). Ultimately, the National Government provided approximately 40% of sheep and beef farm income through subsidies (Smith & Montgomery, 2004, p. 108) with the cost of financial assistance and subsidies to the agriculture sector amounting to around \$5 billion over the period from 1981-1986 (Johnston & Gerald, 1991, p. 134).

In 1984, the Labour party came to power with David Lange as the new Prime Minister, with promises of major reforms to New Zealand's economy (McLean, 2017). The Labour government completely overhauled New Zealand's economy through the removal of regulations, subsidies, privatized state assets and devaluing the New Zealand dollar (Aimer, 2001). The aim of the reforms was to create a market-driven, competitive economy for all of New Zealand's sectors and to create a level playing field (MPI, 2017).

Some of the biggest subsidy cuts were to New Zealand's agriculture sector (Smith & Montgomery, 2004). New Zealand farms were now to act and be treated like any other business by being economically sustainable without any help from the Government (MPI, 2017). Within a year all production subsidies, tax concessions and concessionary interest rates had been removed as well as funding for drought relief, floods and other national weather disasters (Smith & Montgomery, 2004, p. 107) (Nightingale, 2008). By the 1990's the farming sector was one of the most deregulated sectors in the economy and by 2003 agriculture subsidies were less than 2%, with most of this being spent on agricultural research (Smith & Montgomery, 2004, p. 107) (Nightingale, 2008).

The 1980's were extraordinarily difficult for the agriculture community, with major financial hardship due to low incomes, loss in land value and increased debt (Johnston & Gerald, 1991, pp. 140-141). Yet, the anticipated shift of thousands of people off farms did not result (Smith & Montgomery, 2004, p. 108). New Zealand society and farmers adapted and while there were environmental and social costs, only 800 farmers faced forced sales, rather than the projected 8000 (Smith & Montgomery, 2004, p. 108).

The commitment to remove all government distortions was achieved and by the 1990's it became apparent that despite the hardship, New Zealand had benefited from the reforms (Nightingale, 2008).

New Zealand's agriculture sector, particularly the dairy sector, was now internationally competitive and had gained a comparative advantage in agriculture (S. Hoadley, 2012, p. 37).

In conjunction with an overhaul of the agriculture sector, the 1984 Labour Government reversed National's protectionist stance, set a timetable for ending import licensing and reducing tariffs and encouraged free trade (Nixon & Yeabsley, 2010c). Due to a lack of success in multilateral trade agreements, New Zealand favours bilateral trade agreements. By utilizing bilateral trade policy, New Zealand has had more success in eliminating trade barriers, facilitating free trade and providing access for its exports with their allies and trading partners (Obadovic, 2018, p. 1). New Zealand expanded its markets in the USA, Japan, Soviet Union (Nixon & Yeabsley, 2010a). New Zealand also signed the Closer Economic Relations (CER) with Australia in 1983 (MFAT).

Throughout the 2000's, New Zealand focused on Asian markets and countries who were part of Asia-Pacific Economic Cooperation (APEC). New Zealand are extremely proficient and accomplished in negotiating FTAs with other asymmetrical countries. New Zealand was the first developed nation to conclude an FTA with China, the second largest economy and most populous country in the world. Not only did New Zealand conclude an agreement with a state where there is a huge asymmetric power imbalance, but the resulting FTA is still beneficial for New Zealand. In 2018, New Zealand has bilateral agreements with Singapore, Thailand, China, Malaysia, and South Korea (Obadovic, 2018; Woodfield, 2008, pp. 153-167). However, despite successfully establishing secure markets for their exports, New Zealand has been unable to gain further access into the EU.

### **3.4 The Current Trade and Political Relationship between the EU and New Zealand**

Despite the main focus of the relationship being on trade and other economic matters, New Zealand and the EU have a strong relationship (Köllner, 2018, p. 444). Over the past two decades, New Zealand and the EU have signed 15 bilateral treaty-level agreements governing their political and economic relationship (Köllner, 2018, p. 444). The two parties have agreements on climate protection, corruption, transnational organized crime, human rights, science and technology. The official rhetoric on the cooperation between the two parties is that "The EU and New Zealand are like-minded partners who share many common values and interests and see eye-to-eye on key international and global issues" ((EEAS, n.d) cited by Kollner, 2018 p.446).

The current trade relationship between New Zealand and the EU is governed by the most-favoured-nation (MFN) principle established in the WTO Uruguay Round (Obadovic, 2018, p. 34). New Zealand is one of only six WTO nations to not have a preferential access arrangement with the EU, instead New Zealand is granted (what is termed) non-preferential access to the EU market via a

Tariff Rate Quota (TRQ) (Köllner, 2018, p. 447). New Zealand is able to export beef, sheep meat and dairy under the TRQ system to the EU at a significantly reduced tariff level. Currently the New Zealand beef sector is able to export 1,300 tonnes (product weight) of high-quality beef and may compete to supply 63,703 tonnes of frozen beef and 53,000 tonnes of frozen meat of bovine animals (116,703 total) for processing to the EU annually. Imports within the TRQ”) are referred to as “in-quota” and attract a 20% ad valorem duty (NZMeatBoard, 2016a).

During the Uruguay Round, New Zealand succeeded in obtaining the largest country-specific quota of sheep meat and goat meat (carcass weight equivalent) among all the other nations who were negotiating with the EU at this time (Obadovic, 2018, p. 51). In 2008, the quota was increased to 228,254 tonnes and may be exported to the EU annually at zero duty (NZMeatBoard, 2016b). If the amount was to go over the allowed weight, the out-of-quota tariff rate is 12.8% plus the fixed amount in the range of €90.2 to €311.8 per 100 kilograms per net (Obadovic, 2018, p. 51).

New Zealand’s specific butter quota was granted when the UK joined the EEC in 1973 (Obadovic, 2018, p. 51). The current annual volume for specific butter quota is 74,693 metric tonnes while the in-quota tariff is €70 per 100 kilograms. There are two country-specific TRQs for New Zealand cheese. The quota for cheese for processing is 4,000 tonnes and for whole cheddar cheeses it is 7,000 tonnes, making a total combined volume of 11,000 metric tonnes per year, with an in-quota tariff rate of €17.06 per 100 kilograms for both (Obadovic, 2018, p. 51). Both butter and cheese have to fall within the specific description mandated by the EU.

Despite New Zealand having some difficulty accessing the EU’s market, the EU is still New Zealand’s third largest trading partner. The latest trade figures show New Zealand imports from the EU totalling about \$10.7 billion comprised of \$2 billion in services and \$8.7 billion in goods. New Zealand exports to the EU total \$5.2 billion, comprised of \$1.9 billion in services and \$3.3 billion in goods (MFAT, 2018d). Altogether, two-way trade between the two parties totals \$22 billion annually, and even if trade with the UK is excluded from this amount, is still worth \$16 billion to the world’s economy (MFAT, 2018a). The EU is an important goods market for New Zealand, particularly for high value agriculture goods (MFAT, 2018c).

Due to the huge potential gains to the economy, New Zealand continued to lobby strongly for an FTA with the EU and in 2009 New Zealand formally proposed an FTA with the EU. Former New Zealand Foreign Minister Murray McCully has called the EU “a partner of first order importance for New Zealand” (Köllner, 2018, p. 446). However, the EU is reluctant to open their agriculture market to other competitors due to the political minefield that the EU would have to navigate (Köllner, 2018, p. 447). The agriculture lobby in the EU are extremely strong and hold a lot of influence (Markovic et al., 2012). This has not only halted previous attempts at creating an FTA with New Zealand but has also

stopped the EU from reforming CAP to the extent needed, despite it becoming increasingly uneconomical and expensive (Markovic et al., 2012).

However, in 2015, the EU and New Zealand committed to start the process of bilateral FTA negotiations and in 2017, the EU and New Zealand agreed to the scope of negotiations (Köllner, 2018, p. 452). New Zealand continues to maintain strong links and enjoys a good reputation in the UK and to a lesser extent in France and Germany (Gibbons, 2008, p. 118). However, newer members of the EU do not feel the same sort of obligation towards New Zealand that some of the original members do due to a limited understanding of New Zealand interests (Gibbons, 2008, p. 117). How the relationship between New Zealand and the EU is evolving after Brexit is of great interest.

### **3.5 An Accidental Brexit**

On the 23<sup>rd</sup> of July 2016, the UK voted to leave the EU. The Leave result stunned most of the world including the leaders of the UK, as it was assumed the populist ideas expressed by Nigel Farage and Boris Johnson were only attractive to a small section of society (Shipman, 2016). However, the UK voted to leave the EU by 52% to 48% with a turnout of 72% (Moody, 2016). David Cameron resigned as Prime Minister on the 13<sup>th</sup> of July 2016 and was succeeded by Theresa May due to the political fallout from the result of the vote (Stamp, 2017). The reasoning behind Britain's decision to leave the EU is complex and multifaceted Political commentators in the Remain camp and Leave camp offer differing perspectives depending on their bias. To fully understand and appreciate all perspectives, the historical context of the UK and the EU must be considered first.

The UK joined the EEC in 1973 and held a referendum in 1975, which confirmed their membership (BBC, 2015). The EEC became what is now known as the EU in 1993 after the Maastricht Treaty was entered into force (Eur-Lex, 2016). However, even in the early days of the EEC, Euroscepticism has been a part of the British culture (Shipman, 2016). There was a percentage of the population who did not want to be part of the EU as they feared a loss of sovereignty, viewing EU laws and regulations as a threat and Brussels' bureaucracy as a drag on the British economy (Ronald Inglehart & P Norris, 2016, p. 6).

Since the 2007 economic crisis, Euroscepticism has only increased and found an outlet in the populist party UK Independence (Ronald Inglehart & P Norris, 2016). While populist parties are only minor parties in the total electoral scheme, minor parties often exert substantial influence. UK Independence only won one seat in the 2015 general election but populist rhetoric used by the party spread and helped to pressure the Conservatives to call a referendum of the UK's membership to the EU (Ronald Inglehart & Pippa Norris, 2016, p. 6). The referendum was a way for former Prime

Minister David Cameron to placate Eurosceptics within the UK. Tim Shipman suggested in his book "All Out War" that had Tony Blair conducted the promised referendum on the European constitution, Brexit may not have happened as it would have "let all the steam out" (Shipman, 2016, p. 10345). Despite "the economics profession, [being] almost unanimous in its view that leaving the EU would make the UK economically worse off than would otherwise been the case" (Johnson & Mitchell, 2017, p. S12), Cameron and his allies did not accurately anticipate the public's mood.

World markets reacted quickly to Brexit as the British pound plummeted to a 31 year low against the dollar and over 2 trillion dollars were wiped off shares globally (Hobolt, 2016, p. 1259). Since the referendum, the Bank of England has reduced its projections of GDP growth, and both have predicted that the national income would be around 2.5% smaller by 2019 than had been expected in May of 2016 (Johnson & Mitchell, 2017, p. S15).

Due to the overwhelming belief that the UK would not leave the EU, the UK Government had not created any contingency plans (Staff, 2017). Cameron has been accused of gross negligence over the lack of contingency plans (Wintour, 2016). For the past 40 years, as a member state of the EU, many aspects of the UK's external relations are conducted partly or wholly through the EU (Mance, 2016). Being a member-state of the EU means they surrender their right to negotiate or execute such treaties (Britain, 2016), meaning the UK has not negotiated or signed any trade deals in over 40 years.

Now the UK must create institutions that will administer any future trade deals, while at the same time negotiate an exit from the EU. The UK will forfeit business access of 1/3 of the world's markets by value (CBI). 44% of Britain's exports go to the EU, amounting to £220 billion out of £510 billion (Chapman, 2017) and if a withdrawal treaty is not agreed to, the UK will revert to WTO MFN status with the EU and all other nations that the EU has FTA's with. Imports and exports between the UK and the EU will be tariffs at the WTO rate. While the average tariff is low, (about 2.6% for non-agriculture products), cars and car parts would be taxed at 10% every time they crossed the UK-EU border and agriculture tariffs are significantly higher, rising to an average of over 35% for dairy products (WTO, 2017).

Where the UK will look to create new trade, deals is not necessarily unknown. New Zealand is apparently "at or near the front of the queue" for a free trade deal with the UK once Brexit is completed (McCulloch, 2017), but what the economic consequences are to the world market without the UK having single market and preferential access into the EU remain to be seen.

Brexit could be especially consequential with respect to the agricultural sector and trade, which is the point at which a strategic response to the UK decision becomes crucial for New Zealand. The

agriculture sector is one of the most heavily protected sectors in the world, especially in Europe due to CAP. Within the UK, 60% of farm incomes come in the forms of EU subsidies and a report by Informa Agribusiness Intelligence estimates that without subsidies 90% of farms would collapse and land prices would crash (Robertson, 2017). What effect Brexit could have on New Zealand, in particular its agriculture sector, is being watched closely by many interested parties, including the New Zealand government and businesses.

### **3.6 Conclusion**

New Zealand had to learn how to adapt to changing circumstances in the international political economy when the UK joined the EEC in the 1970's, and now has experience in negotiating FTA's in asymmetric situations. With a change in economic and trade policy in the 1980's, New Zealand is now one of the most open economies in the world and continues to be a firm supporter of free and open trade (MFAT, 2017b) (Nixon & Yeabsley, 2010a). Through the 1980 reforms, New Zealand now has a competitive agriculture sector that is not distorted by subsidies.

Brexit has offered New Zealand the opportunity to use its nature as a small state to gain access to a market that is heavily protected and adverse to allowing further New Zealand agriculture exports in. Gaining further access will be a way to offset the potential negative impacts of Brexit on New Zealand's agriculture sector. Having explored New Zealand's agriculture history and contextualized the current political economy, the results from the interviews will be reported in Chapter 4.

# Chapter Four: Findings from Key Respondents

## 4.1 Introduction

This chapter reports the results of the semi-structured interviews<sup>1</sup> with the fifteen political and economic actors and analyses the results by clustering the commentaries into themes. These interviews sought to discern and provide important insights into the short and long term diplomatic and trade risks and opportunities for New Zealand's agriculture sector. The key themes that emerged, and which are discussed below, are as follows: uncertainty, New Zealand's relationships with the UK and the EU, and potential impacts.

These themes provide insights into the complexities of the Brexit negotiations and their potential outcomes. They will be discussed in greater depth in Chapter 5 in relation to how New Zealand ought to position itself to maximize leverage and influence the subsequent and future international trade negotiations with the UK and EU.

## 4.2 Uncertainty

Uncertainty surrounding Brexit was the most significant theme repeated in the interviews with all respondents. Concerns about uncertainty influenced discussion about the opportunities and risks for New Zealand's agriculture sector. There is still a concern as to whether Brexit will eventuate and exactly what form the final deal will take. The polarisation of Brexit is impacting the UK's politics, reputation and confidence and is adding to the uncertainty (PWC, 2016). But in the interviews, respondents were at pains to point out how uncertainty and the factors contributing to it must be appreciated so the impact on New Zealand can be understood. As a result, uncertainty is explored in the following section in the context of its impact on British and European relationships and local politics, which have flow on effects for agricultural trade for New Zealand.

### 4.2.1 The United Kingdom, European Union and the final withdrawal treaty of Brexit

All interviews began by discussing the likelihood of Brexit eventuating. All fifteen respondents expressed the view that Brexit would happen. Respondent three said "*the people voted for Brexit, so we are going to do Brexit*". But predicting what form Brexit would take would be "*foolish*" according to four of the respondents. Therefore at the time of submission, the following quote remains true, "*we can't actually rule any scenario out yet*" (Two, 2017).

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<sup>1</sup> The schedule of questions asked in interviews can be found at Appendix 4

The EU had just rejected May's Chequers plan and the UK was refusing to budge on their Northern Ireland stance (Parker, Barker, & Peel, 2018). The two parties have been unable to agree on the terms of the final withdrawal treaty of Brexit, as they have competing and incompatible objectives for the final outcome. The Conservative Government need to make Brexit a success as *many government officials have staked their career on this* (Three, 2017) and the EU needs to prove Brexit is a mistake to stop other member states from leaving (Erlanger, 2016). The differing objectives have added to the tension between the two parties. However, several Brexit scenarios were suggested during interviews by eight of the informants, including the Canada, Norwegian or Swiss model. From the perspective of one respondent, *"time has simply run out for a bespoke agreement"* (Three, 2017).

Respondents one and three expressed frustration at how the UK wants an agreement similar to Canada's FTA but with extra privileges, beyond what the EU can offer. Respondent one described it as a *Golf Club, where after 40 years one member (the UK) wants to leave but wants all the benefits still without having to pay. That is just not on for the other members*. Respondent one argued that it looks as though *the UK is trying to 'cherry-pick' and that the EU Commission is very unhappy with the way the British have been handling the whole situation*.

A Swiss or Norwegian solution has been suggested by the EU but according to respondent one,

*the Norwegian model and the Swiss model are both hugely complex and cumbersome and not in line with what the UK have been seeking. Norway pays significant fees for access into the EU, accepts EU regulations but has no say on the substance of the regulations. Switzerland has perhaps 100 different agreements with the EU, and ability to diverge on the regulatory front if it wishes, but should it do so EU processes would kick in to determine whether they should still be recognized or have access in those areas* (One, 2017).

Respondent eight stated *"that if negotiations go badly then it will be a Norwegian model offered to the British, which is in line with what Barnier has suggested"*. Three of the respondents *believed staying in the single market is not considered a viable option at this point, as in order to opt in, the British will have to agree on the Four Freedoms*. One of the Four Freedoms is the Freedom of Movement used heavily by the Leave campaign as a reason to leave (Münchau, 2017). At the time of interviewing, these respondents were *unsure whether the UK would stay in the Customs Union but did suggest it may be a solution considering the problems that leaving it may bring to the movement of goods*.

As of May 2018, both the British and European media are reporting that the National Health Service (NHS) and the EU are constructing contingency plans for 'no-deal' Brexit or 'crash-out' (Hughes, 2018) (Keohane & Hall, 2018). While the terminology has changed from Hard Brexit, to Cliff-edge to No-Deal Brexit the intent remains the same; the UK leaves the EU in March 2019, and along with



leaving, current regulations on things like cross-border trade and travel between the UK and EU ends overnight (Hunt & Wheeler, 2016). Without a trade agreement the UK has to deal with the EU under WTO rules (explained at section 3.5).

Fourteen of the respondents who were asked about the possibility of a 'no-deal' agreed that "*leaving without an agreement is intuitively impossible, but the risk is still there*" (Three, 2017). Ten of the respondents discussed a transitional deal and argued that this would have to happen. On the 19<sup>th</sup> of March 2018, a transition period had been approved by both the UK and the EU but it would only apply if a final withdrawal treaty was settled upon (BBC, 2018). Respondents one and three both state that this would be the worst possible outcome for everyone involved, as "*chaos is a reality- this is not scaremongering from the Remainers*" (Three, 2017) However, one respondent expressed that within the UK, hard "Brexiters" are angry May agreed to a transition deal as the UK will still be in the EU and will have to abide by EU rules but "*outside because they will have no voice in policy*" (Eight, 2017). It is from this lack of certainty that the best strategy, offered by several respondents to all businesses and governments alike, is to plan for every single scenario (Seven, 2017; Three, 2017; Two, 2017).

#### **4.2.2 Leavers, Remainers and the European Union**

From the interviews and the various discussions on uncertainty, a sub theme of concern about polarization within UK politics and society also emerged. The internal politics of the UK, EU and the politics between the two parties gives greater insight into the uncertainty being conveyed to the rest of the world. For example, respondent one explains there *is no consensus on leaving by the British bloc of the EU*. Therefore, even if a final withdrawal treaty was agreed upon, New Zealand should not plan its agriculture trade sector solely around that outcome, as there is no guarantee this would actually happen.

##### **4.2.2.1 The Leavers and Remainers in British Politics**

Since the results of Brexit were announced, many respondents expressed concern about confusion and uncertainty in British domestic politics. Theresa May became Prime Minister after David Cameron's resignation and in 2017, the Conservatives Party formed a Government with Northern Ireland party, the Democratic Unionist Party (DUP) through a confidence and supply agreement (UKParliament, 2018). Concern was expressed by the British respondents that the Conservative Government looks '*extraordinarily weak*', with seven respondents suggesting *they were not sure that the Government would actually survive the process of Brexit*. When discussing whether Brexit would actually happen, all respondents discussed how part of the uncertainty surrounding Brexit was due to divisions within British politics.

One obvious implication for New Zealand trade is that it is very hard to know who to deal with in negotiations. For example, respondent two said “*dialogue between the UK and New Zealand is very important*”, but New Zealand has limited resources and cultivating relationships with every politician and public servant in the UK and the EU is near impossible.

In the Conservative Government there are hardline Brexiteers, those who want a soft-Brexit and some who do not want Brexit at all (Pienaar, 2018). The debate within the Conservative party has (in the perspective of the respondents) *stopped any coherent strategy being developed of how to approach negotiations with the EU*. Respondent nine explains that

*Philip Hammond, (Chancellor of the Exchequer) wants to approach the Brexit talks in a ‘top down’ approach, with the assumption that the UK will remain aligned with the EU model, except in certain areas where the UK choses to opt-out of EU regulations. Boris Johnson (former Secretary of State for Foreign and Commonwealth Affairs), wants the ‘bottom down’ approach, where the UK starts with a blank sheet of paper and the assumption that they can diverge in all areas except where it opts into EU regulations.*

Respondent six expressed the view that the Conservative Government and Cabinet are split and look ‘*very feeble and weak*’ and gave an example of how on the 13<sup>th</sup> of December 2017, rebel Tories crossed party lines and voted with the opposition to give Parliament a legal guarantee of a vote on the final withdrawal treaty with Brussels (Kuenssberg, 2017). Within the other major party, Labour, there are the same divisions, with Labour leader, Jeremy Corbyn being called a “*leaver in disguise*” by two of the respondents, despite most of his constituents being Remainers. A respondent remarked *this lack of coherency within both parties is another obstacle to negotiating and implementing Brexit as “British politics is not a given at the moment”* (Six, 2017). Brexit has cut across traditional party lines in the UK, contributing to the feeling of uncertainty being felt by respondents surrounding Brexit.

#### **4.2.2.2 The United Kingdom’s Reputation**

The UK’s reputation and relationship with the EU is also contributing to the uncertainty according to three respondents. They noted that how the EU is presented in the UK has caused significant problems. For example, as Respondent eight explained:

*“David Cameron would routinely criticize the EU and the British political class and commentators have enjoyed the last 20 years of denigrating the EU leading to a fundamental misunderstanding in the UK of what the EU is and what it does. When the Brexit referendum occurred, these same people tried to walk back the negative stereotyping of the EU before the referendum”.*

Many people blamed the EU for the immigration and economic problems the UK is experiencing (Ronald Inglehart & Pippa Norris, 2016). The Leave campaign used this negative stereotyping to their advantage by creating propaganda that was false, but reinforced the image that the political ruling class had created over the last 20 years (Shipman, 2016). Respondent ten suggested a *fundamental misunderstanding led to the Brexit vote*.

Many respondents noted the Brexit vote was a “*shock*” to “*everyone*” involved. Respondent one said the feelings of “*anger*” and “*disappointment*” were palpable in Brussels. They felt as though *the UK was turning their back on a relationship that has brought about 40 years of mutual benefits*. However, as respondent one further explained, *the EU are following the cues of the British and as they say they want to leave the EU, that is how the process is being treated*.

#### **4.2.2.3 Confidence**

The UK now have to interact in the international political economy without the economic and political support of the EU. But another issue raised during interviews is *the inexperience of the British government at negotiating*. On the 29<sup>th</sup> of March 2017, Britain’s EU ambassador handed a letter to EU Council President Donald Tusk, formally triggering article 50 of the Lisbon Treaty (Government, 2017). This is the mechanism that starts the clock on the two year exit process for leaving the EU. According to respondent one, this was *against advice given by the former UK Ambassador to the EU, who advised the British government not to trigger Article 50 until they were sure how the process would be managed by the EU*. Respondent three described the decision to trigger Article 50 as “*jump[ing] the gun*” while former Prime Minister David Cameron said it was “*the gamble of the century*” (Baker, 2016). The message from interviews was clear and best summed up by respondent one - it was *silly to trigger Article 50 when they did as they did not have clarity about the processes involved*. This created a very tight timeframe to “*negotiate, approve and implement Brexit*” (Three, 2017).

According to several respondents, while the letter to the EU was meant to begin Brexit, *it actually signalled to the EU and the rest of the world how inexperienced the UK is at negotiating* (Five, 2017). Respondent one said, “*when they triggered Article 50 they gave up any leverage that they had*”, while respondent four said in frustration, “*we are still trying to negotiate the ‘divorce bill’ and we are trying to negotiate legislate and implement all at once*”. Currently it appears as though the EU holds all the power, which suggests the UK will have to accept the EU’s terms on the ‘divorce’ (Grant, 2017).

It was commented on by seven of the respondents *that many government officials have staked their careers on proving that the UK will be a stronger economic and political force outside of the EU and*

that Brexit was a way to “*take control of Britain*” (Three, 2017). The UK is doing everything in its power to conclude a deal with the EU on their terms. They are also trying to control the optics of Brexit by looking to traditional trade partners (Twelve, 2017). The UK have to negotiate and conclude their own trade deals quickly to maintain business confidence and New Zealand is seen as a natural ally (Patterson, 2018b).

The lack of formal precedents for a nation-state exiting the EU is also causing uncertainty.

Respondent one explained that *the European Parliament has to vote on Brexit and with the time frame as it is, it will be one of the last votes of the current Parliament*. Further,

*within the British bloc of the EU, there is no consensus about leaving and with public resistance mounting in the UK there is no certainty that they will vote in favour of the bill, just as there is no certainty that MP's in the British Parliament will vote in favour of the bill either. There is also the problem of Nigel Farage, who was key in the Leaver's win.* Respondent 3 explained that *most of the British bloc of the EU and the rest of the EU really do not like him and would love to not give him what he wants*.

#### **4.2.3 Uncertainty conclusion**

The speed of the Brexit decision, the lack of detailed plans prior to the British referendum, and the absence of formal precedents for a nation-state to exit the EU has caused considerable uncertainty that has weakened the May Government's credibility and bargaining power. New Zealand's government and businesses will have to explore this uncertainty to ensure New Zealand deploys a suitably anticipatory and strategic strategy to avoid the worst impacts of Brexit.

#### **4.3 Relationships**

As was explained in Chapter 3, New Zealand and the UK have a strong political relationship established in colonial times. But beyond the problems of uncertainty discussed above, Brexit has impacted the New Zealand and UK relationship. This relationship had consequently formed the basis of the ensuing political and trade relationship with the EU. The effect of change in Brexit is to directly impact on the relationships between New Zealand and both Britain and the EU. During interviews, New Zealand's relationship with the UK and the EU was inevitably raised by respondents and during analysis, the theme of relationships became apparent as *“trade agreements are often more about opening minds, than markets”* (Nine, 2018). It is important to note that all New Zealand respondents spoke of *how important both the UK and the EU relationship is to New Zealand*. It was made very clear during interviews by the New Zealand respondents that *while New Zealand does not want to profit from Brexit, they do not want to be adversely affected by it either*. This section will explain how

respondents perceived the impact of Brexit on New Zealand's current relationship with both parties and Chapter 5 will expand upon the significance of relationships on New Zealand's adaptive trade policy.

#### 4.3.1 The United Kingdom

As established above, fifteen respondents discussed the current status of New Zealand's relationship with the relevant party. What was particularly interesting to note was how the 'old guard of British trade' spoke of New Zealand. Despite the UK joining the EEC in 1973, there is still 'maternal' sentiment on behalf of the older British respondents interviewed. Respondent six, who was working for the UK Government during the time that the UK was negotiating to enter the EEC, reminisced *about how worried people in the UK were about New Zealand during and after the UK officially joined the EEC*. This maternal sentiment was not as strong when discussing New Zealand's relationship with younger respondents.

Four other respondents also discussed the residual emotional ties between the UK and New Zealand. New Zealand's *shared history, similar legal systems, common language, shared ideals and similar outlooks have contributed to their strong relationship with the UK*. This has allowed New Zealand's governments and businesses to use London as a starting point into the EU.

#### 4.3.2 The European Union

As discussed in Chapter 3, New Zealand's relationship with the EU is mainly a consequence of New Zealand's relationship with the UK. Trade commitments were made during the 1970's when the UK was joining the EEC and during the WTO Uruguay Round. As respondent one stressed, going forward New Zealand will *"have to up its game with other nations in Europe to ensure our interests are protected and advanced. With most we don't have the same sort of ties as we do with the UK"*. On the 22<sup>nd</sup> of May 2018, the Council of the EU adopted the decision authorising the opening of negotiations for an FTA between the EU and New Zealand (MFAT, 2018c). While this is a step in a positive direction, respondent nine remarked *New Zealand is at a disadvantage due to New Zealand being one of the last six nations in the WTO to not have an FTA with the EU. As one of the last countries that the EU deals with New Zealand must be highly engaged in the process*.

At the time of interviewing, the FTA between the EU and New Zealand had not been announced. However, it is important to note that five respondents did speak of wanting to strengthen New Zealand's links with the EU outside of the UK. As respondent one explains, *while we appreciate the UK and their voice in the EU, since Brexit there has been a shift on the balance of power*. The

respondent noted that *New Zealand has responded by trying to strengthen their links with other EU nations.*

### 4.3.3 Presence and Relevance

An issue that came through strongly in interviews with New Zealanders was gaining and maintaining relevance in the UK and EU. Respondent two spoke about how New Zealand diplomats and advisors in London would have to “*spend a lot of time and energy on keeping the lights on so to speak*” as “*relationships are vital and New Zealand needs to work hard to remain visible and topical as the UK can survive without us*”. Overall, New Zealand respondents all stressed how important the UK and EU are to New Zealand, and how “*we must manage the relationships correctly*” as *this enables New Zealand to mitigate the risk of Brexit* (Two, 2017), and embrace the positive impacts for New Zealand as much as possible. Many of the New Zealand respondents expressed the belief that separate relationships with the UK and EU would actually help New Zealand to *gain greater trade access, through deepening and expanding the existing ties*. However, a concern shared by many of these respondents was whether New Zealand would be able to devote the time and resources needed to accomplish this.

In response to asking how New Zealand could encourage their relationships with both the UK and the EU, several respondents were adamant the key was through political relationships. According to respondent nine, the relationship between the UK and New Zealand was very strong under National but “*Labour needs to continue the momentum and step it up even more*”. Respondent twelve discussed how *many other nations will be vying for an agreement, especially those who are direct competitors to New Zealand goods*. Therefore, it was suggested by three different respondents that:

*David Parker, New Zealand’s Minister for Trade and Export Growth and Damien O’Connor, New Zealand’s Minister for Agriculture, Bio Security and Minister of State for Trade and Export Growth, need to go to the UK and the EU. It was also suggested by respondent nine that “an economic development team is needed on the ground”.*

One respondent proclaimed that “*New Zealand (government and businesses) still haven’t quite grasped how hard we are going to have to work and what we are going to have to do to maintain our presence* (Nine, 2018)”. Ultimately the message from all New Zealand respondents was that “*due to New Zealand’s small size and economy, New Zealand must work hard to continue our presence in the market*” (Five, 2017) as “*momentum is key*” (Nine, 2018).

#### 4.3.4 Relationships Conclusion

New Zealand's strong relationship with the UK paved the way for its subsequent relationship with the EU. However, New Zealand will have to focus considerable attention on the EU in order to foster a relationship on par with what New Zealand shares with the UK. The EU will have to be the priority at this stage due to the subsequent negotiations on an FTA between New Zealand and the EU. New Zealand will also have to continue to nurture its relationship with the UK, as there will be many other nations (especially those who are New Zealand's competitors) who will be wanting to establish trade deals with the UK once Brexit is finalized.

#### 4.4 Vigilance or Naivety?

Brexit will change the international political economies world order and therefore New Zealand will have to adapt to the changes. How prepared is New Zealand with all of the uncertainty surrounding Brexit and the change in the international political economy? Vigilance emerged as a theme in interviewing, with many respondents *questioning how prepared the New Zealand government, businesses and the agriculture sector were to respond to Brexit.*

##### 4.4.1 Bi-partisan Trade Policy

At the time of interviewing, New Zealand had just undergone a national election, whereby New Zealand's Labour Party formed a coalition government with the New Zealand First Party and the Green Party. The National Party had been governing for the previous nine years, and although the coalition parties promised new policies and changes, trade policy is one area that has and will remain relatively untouched. When asked on the 3<sup>rd</sup> of April 2017 at the University of Canterbury what changes Labour would implement to foreign affairs and trade that National would agree with, former Foreign Affairs and Trade Minister and National MP Murray McCully, replied *that in the realm of international trade policy and foreign affairs, the agenda is set years in advance and even if there were to be a change in government, little would change in the strategy and goals.* New Zealand relies on free trade due to their size and location in the world, so New Zealanders can sustain their standard of living. Therefore, New Zealand's international trade policy across the two major parties is predominantly bi-partisan.

When New Zealand respondents were asked how the change in New Zealand's government would impact the trade agenda, they confirmed the former Minister's statement, with some extra detail.

*The coalition Government may look to bring in more sustainable deals and elements to New Zealand's trade policy due to the Greens and place a greater emphasis on ensuring the*

*benefits from improved market access flow to the wider New Zealand. But ultimately, New Zealand's international trade policy across the two major parties is predominantly bi-partisan.*

However, as was discussed above in 4.3.3, several respondents suggested that the Government, and those who do not work directly in international trade, are not aware of how hard they are going to have to work to maintain relevance in the UK and the EU. It was made clear during interviews that this applies to both the past and present Governments of New Zealand.

#### **4.4.2 The Agriculture Sector**

New Zealand is the world's 12<sup>th</sup> largest agriculture exporter (by value) and maintains a comparative advantage in production of agriculture goods. However, whether New Zealand businesses are able to position itself accordingly so that they are not adversely effected by Brexit is questionable.

According to respondents three and nine:

*New Zealand's goods and exporting sector are highly regarded around the world due to the high quality agriculture goods that are produced and how much experience large New Zealand businesses have in trade. New Zealand also appears to be rejecting intensive farming and embracing grass fed, hormone free, antibiotic free, GM free and natural production farming (Nine, 2018). As the rest of the world moves towards intensive farming to feed the world's growing population, New Zealand could be able to dominate this niche market (Three, 2017).*

However, New Zealand businesses do have some quite significant issues, that came up with three economic respondents. *To their great detriment New Zealand businesses do not understand how tariffs work* (Nine, 2018). This is not to say all businesses misunderstand tariffs, four respondents provided an exception to their statement as *both Fonterra and Beef and Lamb have an exceptionally good grasp on the issue due to the multinational nature of their companies*. However, smaller businesses may miss out on economic gains and profits due to their lack of knowledge of how tariffs work. For example,

*"there is a huge demand for New Zealand onions in France, however tariffs are not invoiced separately, and it is included in the landed price. Exporting companies also share part of the blame as they lack understanding of how tariffs are applied and what they cost"* (Nine, 2018).



#### 4.4.3 A Naïve Conclusion

Ultimately, there appeared to be quite a bit of naivety on behalf of those not directly involved with New Zealand's international trade. The New Zealand government will *"have to be on the ball, as once we are out we may never be able to get in and/or would have to give up a lot more than what we may have had to originally give up"* (Nine, 2018). Policy advice will be offered in Chapter five to overcome the issue that New Zealand government and small businesses face.

### 4.5 Impacts

Discussion of the theme of uncertainty, and how cleavages and politics have impacted upon any certainty, help to inform New Zealanders of the impacts on New Zealand's agriculture sector. While New Zealand's government and businesses cannot rule out any scenario, they can determine general impacts and how to mitigate these risks (Nine, 2018; One, 2017; Seven, 2017; Three, 2017; Two, 2017; Vermeulen et al., 2013). This section will discuss the potential impacts of Brexit on New Zealand under the themes of the good, the bad, the ugly and the awkward.

#### 4.5.1 The Good

As mentioned in 4.2.1, no one can predict the final outcome of Brexit and any opportunities discussed at this stage are only suppositions. New Zealand will not know it's standing until the final form of Brexit is announced (Seven, 2017). But there are some opportunities that can be planned for. With near certainty, New Zealand has opportunities in the ICT sector and there is potential for easier movement between the UK and New Zealand (Walls, 2017). However, in regards to New Zealand's agriculture sector, according to many of the respondents, the biggest potential opportunities are FTA's with both the EU and the UK, and a reform of CAP in the UK (Five, 2017; Nine, 2018; One, 2017; Seven, 2017; Twelve, 2017; Two, 2017).

##### 4.5.1.1 New Zealand- United Kingdom Free Trade Agreement

While most of the respondents interviewed were against Brexit, especially those of British citizenship, three of New Zealand's respondents had a slightly different perspective on the situation. While they disagreed with Brexit on a fundamental level, they took a pragmatic approach to Brexit, *arguing that ultimately New Zealand would benefit from a pro-independent Britain that is outward looking* (Nine, 2018; Seven, 2017; Two, 2017).

If the end result is a 'soft Brexit' where the UK opts into the single market and adopted EU regulations, then respondent nine suggested *"they are missing the point of an independent UK. This*

*is a problem for New Zealand, as the closer the UK is to the EU, the harder it will be for the UK to look outward to other countries". Respondent's twelve and thirteen suggested that Brexit is an opportunity for New Zealand to reassess their relationship with the UK and the EU. Ultimately, what New Zealand wants and should encourage is an outward looking, pro-independent Britain and when Brexit is complete, New Zealand should strive towards negotiating and completing a bilateral agreement with the UK (Nine, 2018). But to achieve this, New Zealand must position themselves without being seen to take advantage of Brexit (Eleven, 2018; Nine, 2018).*

One British respondent felt that *"any trade deal between New Zealand and the UK would be more about deepening their cultural and political ties rather than economics"* (Four, 2017) *due to the structural differences and distance between the two states.* Respondent four explained his perspective through the use of the 'gravity trade model' (GMT) and explained *that under GMT logic, relative sized economic countries are attracted to each other and those that are not similar sized, tend to trade less.* Relative size is determined by current GDP and economic proximity is determined by trade costs - the more economically distant the greater the trade costs (De Benedictis & Salvatici, 2011). GMT is structural, as New Zealand has a much lower GDP than the UK and the EU.

Another British respondent collaborated respondent four's remarks and discussed that the differing size of the economies and distance between the two states are barriers to any potential FTAs. He ultimately concluded that Brexit is *not an opportunity to re-assess due to the structural nature of the relationship.* However, he did also say that *"there is a real opportunity to make the relationship stronger and to make New Zealand a strong and important trading partner"* of the UK due to *"the same philosophical approach to trade policy"* (Four, 2017).

New Zealand respondent nine agreed but was slightly more hopeful about how beneficial a trade deal between the two states could be for New Zealand stating, *"trade agreements are often more about opening minds than markets and once this occurs then it usually becomes easier to trade in that country"*. This, he said, is because *"when there is a reduction of tariffs, companies look to those countries to build partnerships and other commercial arrangements and often trade grows in spite of tariff relief, when there has been a deepening of an existing relationship"*.

However, two other British respondents felt differently to respondent four due to the situation that the UK has found itself in. One explained that *New Zealand has been given extensive negotiating power by Brexit, as the UK needs to prove that they can survive and negotiate trade deals outside of the EU. Timing is important and if New Zealand is tactical, they may be able to walk away with very favourable FTA* (Twelve, 2017). The other respondent stated *"play hardball and just give a trade deal to Theresa May. They will sign anything now. They need to look as though they can negotiate"* (Thirteen, 2017).

#### 4.5.1.2 New Zealand-European Union Free Trade Agreement

In 2009, New Zealand formally proposed an FTA with the EU and in 2017/2018 both sides finalized their mandate for negotiations (MFAT, 2018b). Two-way trade with the EU is worth \$16 billion per year (MFAT, 2018b). However as discussed in 3.2. and 3.4, New Zealand is constrained by CAP and has limited access to the EU market.

Nevertheless, there is potential to reduce tariffs and greater access into the EU with an FTA. An FTA with the EU is a huge opportunity for New Zealand due to being New Zealand's largest source of imports and third largest export market (MFAT, 2018d). The EU estimates that an FTA with New Zealand could result in a GDP boost for New Zealand of between \$1.2 billion and 2 billion, and a 10 to 20% increase in exports (Patterson, 2018a). The sectors of agriculture, motor equipment, machinery, processed foods and services will be the main beneficiaries (Patterson, 2018a).

In 2017, while the EU and New Zealand had announced their intention to negotiate an FTA in 2015, not much movement had occurred (MFAT, 2018b). Therefore, during interviews, an FTA between New Zealand and the EU had been discussed in a hopeful but abstract way by five respondents. Respondent five spoke about how *New Zealand imports more dairy from EU than exports and a deal would potentially allow New Zealand more access into the market*. Respondent nine spoke of *the huge demand France has for New Zealand onions, however tariffs take most of the money away from New Zealand producers*. New Zealand has struggled to get the EU to commit to an FTA for years; however with Brexit, the EU appears to have adjusted their position. What the implications of this are will be discussed in Chapter Five. Since these interviews have taken place, it has been announced that a NZ-EU FTA will be negotiated and is currently taking place (MFAT, 2018g). It is suggested by NZ and the EU that negotiations will take two to three years to conclude (MFAT, 2018g).

#### 4.5.1.3 The Common Agriculture Policy and a Market Based Approach

Another opportunity for New Zealand's agriculture sector is the potential to overhaul CAP in the UK. Policy Exchange, a think tank in the UK produced a report in 2017, called *Farming Tomorrow*, where it called on the Government to phase out subsidies on food production by 2025. Instead the subsidies could be used to incentivise other behaviour, such as protecting the environment. The funds could then be diverted to other public goods, such as to the NHS. It was also suggested that the UK lower tariffs on agriculture goods to allow for cheaper imports. Warwick Lightfoot, director of research, argued that Brexit was a chance to get away from some of the "oddities that have emerged under CAP" and that the UK should be "accepting we don't have a comparative advantage in the sort of meat you can get from Australia, New Zealand and Argentina, which is a high-quality product at a fraction of the price we can produce it here" (Wright, 2017).

Ten out of the fifteen respondents were asked about CAP and it was found that reforms are more likely in the UK, *as they will not have the same access to funds* (Four, 2017; Three, 2017). May's Government has promised farmers to continue to fund CAP at the current level until 2022, but it was suggested by several respondents that, eventually the sector will move away from subsidies and farmers will have to learn to survive on their own merits. According to respondents five, eight and nine *a reform of CAP is accepted, to a degree, by the National Farmers Union (NFU) in the UK*. The farming sector is not seen as a priority. Respondent seven spoke of *a leaked report commissioned by the UK government, and how it analyses how each industry will be hit under each economic scenario of Brexit* (Parker, Pickard, & Hughes, 2018). *This report did not mention dairy*, with respondent five remarking that *the dairy industry know they will be used as a bargaining chip in the Brexit negotiations*.

The UK government is much more concerned with how the British financial sector will be impacted (Five, 2017; Parker, Pickard, et al., 2018). This is because the leaked report confirms that the UK will be left worse off under all economic scenarios after Brexit with financial services, manufacturing and retailing being among the worst hit industries (Parker, Pickard, et al., 2018). There is a predicted fall in growth between 2%-8% over the next 15 years, with a soft Brexit being at 2%, an FTA with the EU being at 5% and 'no deal' being 8% (Parker, Pickard, et al., 2018). *How the UK government will be able to afford the CAP at the current level of funds is questionable, which could encourage a reform* (Three, 2017). What is important to take into consideration is that reportedly, UK farmers voted to leave because they were frustrated by the EU systems and rules that stop them from being competitors in food production (Gordon, 2018). It has also been reported in the news that subsidies do not end up in the farmers pocket but go to big businesses (Beament, 2017; Chaffin, 2010).

New Zealand would be in good position to *leverage their experience due to their own reforms in the 1980's and may be able to help shape a new CAP in the UK* (Five, 2017). What occurs in the UK could potentially inspire the EU to take the same steps. This would result in better returns for New Zealand producers and they would *not be competing against the cost of a subsidized product* (Five, 2017).

However, the British respondents were slightly more reserved in their assessment of a potential reform of CAP. Respondent three argued *that the current Conservative UK government is slightly constrained in terms of how much they can reform the farming sector, due to the farming sector being their traditional voter base*. Respondent four stated *that they would be surprised if they did reform the sector due to the risk of alienation of voters, especially in a time when the Conservative Party is so weak*. What this means specifically for New Zealand's agriculture sector will be discussed in greater depth in Chapter 5.

## 4.5.2 The Bad

Brexit has many associated risks for New Zealand's agriculture sector including a recession in the UK. This section will look at the economy and how a recession could be detrimental to New Zealand interests.

### 4.5.2.1 The British Economy

As was outlined in 3.5, the international economy did not react well to the Brexit vote. Six respondents discussed the economy, with four explaining the significance to New Zealand agriculture. According to respondent eight, *inflation has emerged as a real social and political problem* due to the pound being devalued after Brexit and *many think it will probably devalue further* (Seven, 2017).

The immediate effect on New Zealand has been easy to recognize, *as it had an immediate impact on New Zealand exporters and would place further pressure on exporters* as exports become cheaper (Nine, 2018; Seven, 2017). The long term impact of Brexit is harder to identify. As discussed in 4.5.1.3, there is a predicted fall in growth between 2%-8% but this will be largely determined by the final withdrawal treaty and form of Brexit that is yet to be determined. However, as three respondents explained, *there is a risk of disruption to markets, due to slower growth or a recession in the UK as a result of Brexit, depending upon the terms of the withdrawal agreement, the scope and timing of a future trade agreement* (One, 2017; Seven, 2017; Two, 2017). As respondent six said, *"there will be five to ten years of really bad times - there will be a recession"*, he also doubted *"whether the UK would ever fully recover from Brexit"*.

If this happens, pressure could be put on the UK and EU governments to protect the agriculture sector by lobby groups, farmers and other contractors associated with agriculture. There is the need to be acutely aware of those *"who would like to move to a more protectionist stance i.e. Little Britain"* (Three, 2017). The need to protect their "own" and employing protectionist policies is completely contradictory to what New Zealand wants in terms of a market based agriculture sector in the UK and EU. Therefore, the opportunities expanded upon above (an FTA and a reformed CAP) would be in direct conflict to the realities of the UK economy.

### 4.5.3 The Ugly

There were two very 'ugly' implications in particular that came through in the interviews. One was the potential of a crash-out scenario and the other was how the TRQ's were being dealt with. All New Zealand respondents were concerned about these impacts and have been watching how the process is unfolding closely. This section will expand upon these concerns.

#### 4.5.3.1 Crash-Out

Four New Zealand respondents spoke about how New Zealand *may have to contend with the 'no-deal' or 'crash-out' scenario which could badly impact global trade*. This is looking increasingly likely as Mark Carney, the governor of the Bank of England, called the level of risk “uncomfortably high” (Perriog, 2018) and Liam Fox, UK Trade Secretary, admitted that there is a 60% chance of the UK leaving without a deal (Bond & Toplensky, 2018).

On the 30<sup>th</sup> of September 2018, the New York Times published an article detailing what stage the UK government is at six months before 29<sup>th</sup> of March 2019, the date of Brexit (Barry & Castle, 2018). It was ultimately found that the UK is still in the same position as what they were the morning after the Brexit vote, with no clear plan of how to proceed. Theresa May's Chequers plan has been rejected by EU members, there is infighting within the Conservative government – along with a potential leadership bid by Boris Johnson, and the leader of the Labour Party, Jeremy Corbyn has announced that Parliament will vote down any deal that may be struck by Theresa May. The tone of the article was bleak, although some sources in the article argued that Theresa May is in a stronger position the closer Brexit becomes as the EU will want to avoid a crash out as much as the UK.

However, the UK is in a much more precarious position than the EU. If a crash out occurs, there could be black outs and 20% cost increase on power due to the location of energy generators, a minister has been appointed by the Government to guarantee food supply, and medical supplies are under threat with companies working to stockpile at least six weeks of supplies. There is also the possibility that planes and ships may not be able to enter EU countries from the UK and vice versa (Barry & Castle, 2018). The EU will experience some disruption but not to the same extent as the UK. The crash out scenario remains a very real threat that New Zealand's agriculture sector should be aware of.

The full extent of how this will impact New Zealand is not known at this stage. However, respondents offered some educated guesses that can be used to help inform New Zealand's agriculture sector of potential implications. New Zealand's economy may be damaged as there is the potential of an oversupply of agriculture goods within the UK, which causes a drop in price of the good and its supply chains within Europe will be under threat.

Two of the respondents compared the 'no-deal' scenario to the effect sanctions placed on Russia in 2014 in the wake of the annexation of Crimea and conflict in Ukraine had on the global economy (Gordon, Kavanagh, Oakley, & Stothard, 2014). Some estimates suggest that in terms of impact on the global dairy market, a 'no-deal' is worse. “*It makes the [effect of the] Russian embargo look tiny*” stated respondent five. The Russian Sanctions caused huge problems for the dairy industry, New

Zealand's largest export sector (graph 1.2), which contributed \$7.8 billion to New Zealand's GDP in 2017. Trade between the two parties will be regulated by WTO rules and tariffs (Perriog, 2018). Two respondents identified the potential impact this would have on New Zealand's lamb sector. Respondent seven explained that,

*The UK currently exports a third of their lamb to the EU. This will no longer be exported if the UK's tariffs with the EU go to WTO rates, therefore creating an oversupply of lamb within the UK with a significant impact on domestic prices.*

New Zealand will not be getting the same returns on lamb exports from the UK. Coupled with the TRQ situation, there is cause for concern. The TRQ situation will be discussed further in 4.5.3.2.

Another cause for concern if the UK does 'crash-out' is the threat on New Zealand's global value chain (Five, 2017). The UK will leave the EU without any of the trade, customs and regulatory measures *that are provided as 'public goods' by the EU* (Three, 2017). At present there are no significant delays and no customs costs, but with Brexit, duties, goods and services tax, and checks at the border will have to be added (One, 2017). *The UK will have to employ 5000 people to police the borders. To train a customs officer is a huge expense and can take upwards of three years depending on the country but at the very least one year* (Three, 2017).

The logistics of the UK leaving the EU are only just starting to be realized by the general public even now. Respondent three argued that the *British public did not realize what exactly the EU provides in terms of public goods in regard to EU regulations and supply lines, that help to keep the cost of goods down*. Respondent one spoke about

*the economic impacts from exiting the customs union and how these extra costs would be passed onto the consumer. Cars, parts and people move back and forwards between the UK and EU-27 on 'just in time' basis. Bailey's Irish Cream moves back and forwards across the Irish border five times before it is finished* (One, 2017)

New Zealand will also have to contend with additional costs, for example:

*Fonterra produces lactose in the Netherlands, that is then sent to the UK and manufactured into GOS, then sent to Australia, before finally being sold in China as infant formula. As respondent five stated, "Brexit makes the Global Value Chain look less appealing through additional tariffs and/or custom clearance issues".*

Theresa May and her government have been trying to facilitate a transition deal to ease the impact of the loss of these public goods, but as was explained in section 4.2.1, a transitional period is contingent upon both parties agreeing on the final withdrawal treaty. If a 'no-deal' scenario eventuates, this will break the promise made to the public by May's Government, that Brexit would result in '*frictionless free trade*' (One, 2017).

#### 4.5.3.2 Trade Rate Quotas

Before travelling to Europe, it became apparent in the media that TRQ's were a huge source of worry for New Zealand agriculture producers and the government (Honey, 2017). All respondents discussed the key TRQ challenges for New Zealand. One British respondent suggested

*that deals would be done and unfortunately due to New Zealand's size, they will have to take what has been given to them. They also expressed that the USA will probably have more of an impact in the ensuring stand-off but ultimately it will be sorted out* (Four, 2017).

New Zealand respondents have a different perspective on the TRQ's. Since the interviews have taken place, it has been announced that due to Brexit, the current system of TRQ's will change. The current proposal suggests TRQ's would be divided based on historical averages of where New Zealand exports have gone previously (Various, 2017). New Zealand respondents are determined to maintain the status quo as *this would cause New Zealand to lose flexibility in where their exports are sent depending on the market demand at the time* (Seven, 2017). As discussed in 4.4.3.1, domestic lamb prices in the UK may fall significantly if a crash-out occurs. New Zealand will not be able to move its lamb exports around the remaining 27 EU member states, due to the change in the TRQ rules and its returns on lamb will decrease significantly with oversupply in the UK.

It was also suggested that *there is the risk that the data doesn't tell the full story. Product imported to the EU arrives in Southampton in the UK but may end up in France* (Five, 2017; One, 2017; Two, 2017). This loss of flexibility will create a fight that is 'ugly' as

*"New Zealand will be fighting tooth and nail to retain current EU and UK access and also the flexibility to be able to sell in all markets", as anything that reduces the flexibility will "decrease our returns"* (Nine, 2018)

Respondent seven explained that while New Zealand's dairy sector use very little of its TRQ access, splitting TRQ's is a huge risk for New Zealand, as the flexibility that TRQ's provide is *how we get value from the market*. At present, the perspective of New Zealand is *for the all the TRQ access to stay with the EU, as the EU is still a high value market* (Seven, 2017).



#### 4.5.4 The Awkward

There are several awkward impacts on New Zealand's agriculture trading sector. These impacts are neither good nor bad but New Zealand government and businesses are going to have to be well prepared, aware, and tread carefully to ensure these impacts are managed correctly. A 'soft-Brexit', whether New Zealand will be one of the first countries to get an FTA with the UK, and New Zealand's image were all themes that emerged during interviews, and for the purposes of this thesis are termed 'awkward'.

##### 4.5.4.1 'Soft-Brexit'

The 'soft-Brexit' option was discussed at 4.5.1.1 and is preferable to a crash-out in the perspective of six of the respondents, *as regulations will be in place to keep the global supply chain working and keep tariffs and custom costs low*. However, it does have a disadvantage according to respondent nine, *as it will keep the UK in the orbit of the EU and vice versa*. This will not allow New Zealand to explore separate relationships with the UK and the EU. This will be discussed in greater depth in Chapter 5.

##### 4.5.4.2 First in Line?

In the media it has been widely reported that New Zealand will be first in line for a trade deal with the UK (Patterson, 2018b). However, respondent four disputed the genuineness of the remarks made by the UK for several reasons:

*The UK will try to replicate some of the deals that the EU has i.e. South Korea, Canada. Therefore, these two countries will probably be at the front of the queue when it comes to an FTA with the UK. The reasons behind this are structural; these countries have bigger markets and therefore have more to offer the UK. Further the UK will be able to 'copy and paste' these agreements without much time and effort compared to New Zealand (Four, 2017).*

While New Zealand is currently negotiating an FTA with the EU, it takes years to conduct and conclude an FTA (as was explained in 4.5.1). The remarks made by respondents four and six in 4.5.1.1, in relation to structural differences, need to also be remembered. New Zealand does not have as an attractive economy and structure as South Korea or Canada.

##### 4.5.4.3 Is New Zealand able to fill the gap?

Another issue that was suggested by respondent twelve, is that *New Zealand's competitors in lamb, beef and dairy may be able to fill the void left by Brexit before New Zealand has the chance*. Ireland,

for example, exports 78,000 tonnes of cheddar to the UK every year (Marks, 2017). If the UK crashes out of the EU, the UK will have to find new suppliers. New Zealand respondents one, five and nine

*identified this as a huge opportunity for New Zealand. But there are potential problems with this goal that need to be considered. Firstly, whether New Zealand producers would be able to take advantage of cheddar demand, and secondly, New Zealand competitors attempting to also take advantage of the lack of supply.*

This does not just apply to cheddar, this also applies to any gaps left by Brexit. Respondent fifteen stated that he believed New Zealand

*“businesses wouldn’t be in a strong position to take advantage of the opportunity. Likely because very few New Zealand businesses have the available capital on hand to commit quickly to a new opportunity with scale”.*

Respondent five was worried *that not only would this would allow New Zealand’s competitors to fill the gap but could also lead to price inflation of a good, if there is an oversupply in the market.* Several respondents explained that rushing to fill the void left by the EU or UK needs to *be handled with care and strategy*, but particularly through continuing to *cultivate the relationships with the EU and the UK.* This will be discussed further in Chapter 5.

#### **4.5.4.4 New Zealand’s Image**

New Zealand’s image in the UK and the EU is also an issue. Respondent five explained that

*some in Europe hold the mental model that we’re a very low cost producer of dairy products and therefore that we send in bulk at cheaper prices to Europe, flooding the market. There is also the view that New Zealand has lower animal welfare and environmental standards which mean our farmers are able to produce product more cheaply, which gives us an unfair advantage over EU farmers.*

This view comes from the 70’s and 80’s and despite New Zealand advertising their ‘*clean green image*’ this has not done enough to change the perspective of European producers (Five, 2017). The respondent went on to state that *European agriculture producers view is very incorrect but nevertheless persists.* The reason for this continuing perspective, according to respondent nine is because,

*UK and EU farmers and officials will fight to stop New Zealand goods from being imported as ultimately, this view is all about how “deeply fearful [they are] of us as a competitive threat”* (Nine, 2018).

#### **4.6 Impacts Conclusion**

Brexit has created many opportunities for New Zealand's agriculture sector, including access into the EU and the UK and the potential to reform CAP. However, there are also many risks such as the British economy, a potential crash out and splitting TRQ's. How New Zealand's government and businesses manage Brexit and the opportunities and risks that it brings, will be of great significance to New Zealand society. The implications of these findings and how New Zealand can minimise these risks will be discussed in Chapter 5.

#### **4.7 Findings Conclusion**

This Chapter reported on and analysing the results by clustering the commentaries into themes of uncertainty, New Zealand's relationships with the UK and the EU and potential impacts. These interviews and themes provided the short - and long - term diplomatic and trade risks and opportunities for New Zealand's agriculture sector through providing insights into the complexities of the Brexit negotiations and their potential outcomes. Chapter 5 will discuss these findings in greater depth in relation to how New Zealand ought to position itself to maximize leverage and influence the subsequent and future international trade negotiations with the UK and EU.

# Chapter Five: Implications from interviews for understanding New Zealand agricultural trade opportunities and risks under Brexit

## 5.1 Introduction

Chapter 4 reported on and analysed the results of the semi-structured interviews with the fifteen political and economic actors by clustering the commentaries into themes. The key themes that emerged, and which are discussed above, were: uncertainty, New Zealand's relationships with the UK and the EU and potential impacts. These themes determined the short and long term diplomatic and trade risks and opportunities for New Zealand's agriculture sector through providing insights into the complexities of the Brexit negotiations and their potential outcomes. Chapter 5 will now discuss these themes in greater depth in relation to how New Zealand ought to position itself to maximize leverage and influence the subsequent and future international trade negotiations with the EU and UK.

## 5.2 Jack, the Giant Killer: Small State Leverage in a Global Market?

New Zealand is a small state that is heavily dependent on international markets, and possesses a high degree of economic openness, equating to New Zealand being susceptible to changes in the international political economy (Fox, 1959; Köllner, 2018). Brexit poses significant challenges to New Zealand's agriculture change through the re-writing of the rules of the international political economy and trade access into the EU (Honey, 2017). Further, as discussed in Chapter 2, the theory of asymmetric relationships holds that the largest party holds the power (Bilal et al., 2011).

However, while New Zealand is unable to exert any control over events, it is not powerless in the international political economy. New Zealand, as a small state, is able to manoeuvre quickly when confronted with tension and changes in the sphere of influence of the international political economy (Baldacchino & Bertram, 2009; Ingebritsen, 2010; Katzenstein, 1985). This derivative power may enable New Zealand to negotiate a favourable trade deal with the more powerful states of the UK and the EU (Handel, 1981). Jones (2013) Hoadley (2017) and Bilal (2011) argue that in asymmetric negotiations, if "a smaller party can augment its power through the skilful use of negotiating strategies and tactics" (Jones & Commonwealth, 2013, p. 63) they are not necessarily "at the mercy of the more powerful state" (Salacuse 2000, p. 257). Since Brexit, there has been conflict of competing objectives between the UK and the EU. The EU wants to make it hard for the UK to exit, while the UK want to make Brexit a success. New Zealand is now considered highly strategic to the EU and the UK, a position that according to Jones (2013) is highly advantageous when negotiating an FTA.

New Zealand has been granted limited access into the EU since 1973 due to their historical ties with the UK, with an FTA remaining elusive. However in 2018, the EU formally approved FTA negotiations with Australia and New Zealand (MFAT, 2018g). The European Commission President, Jean-Claude Juncker stated that the “negotiations would be fast tracked” (Patterson, 2018a). The mandate signals a multi-billion dollar deal between New Zealand and the EU before the UK exits (Patterson, 2018a). According to EU modelling, this would result in between a \$1.2 billion and \$2 billion GDP boost for New Zealand and a 10% to 20% increase in exports, with New Zealand’s agriculture sector being the most likely to be benefited by an FTA (Patterson, 2018a). The European markets are a “huge, high value market” for New Zealand and one that should be pursued vigorously (Patterson, 2018a).

The EU in comparison will not receive anywhere near the benefits that New Zealand would secure through an FTA, with the monetary gains to the EU being minor (Obadovic, 2018, pp. 143-161). Von Der Burchard argues that the EU was postponing the resulting talks due to the powerful agriculture lobby in the EU that does not want to compete with New Zealand goods (VonDerBurchard, 2017). Perhaps most telling is Mr Parker stating that the FTA has “been hanging in the balance even until very recently” (Patterson, 2018a), despite New Zealand and the EU announcing an intention to negotiate back in 2015. EU farmers fear that once agriculture is liberalised, New Zealand dairy and meat products will flood the EU market. New Zealand can expect that lobby groups will be very active during FTA negotiations (Obadovic, 2018, p. 57).

However, this depends upon how New Zealand positions itself and the strategies it employs. New Zealand needs to correctly leverage and influence the UK and EU so that a favourable FTA is negotiated. Despite Brexit remaining in flux, the implications arising from interviews will help inform New Zealand’s agriculture sector, Government and businesses on policy options. If this process is managed and planned for appropriately, this could minimise the negative impact of Brexit on New Zealand’s agriculture sector. This section will argue that New Zealand is in a strategic position to embrace the opportunities that Brexit presents and mitigate, or at the very least minimise, the negative consequences of Brexit.

### **5.2.1 How do you solve a problem like Maria? Mitigating Brexit’s impact on New Zealand’s Agriculture Sector**

The potential negative impacts of Brexit include a possible recession in the British economy that will place further pressure on New Zealand’s agriculture producers and exporters, a crash-out that could jeopardise New Zealand’s global supply chain and a confirmation of the plan to split New Zealand’s TRQ’s down historical averages. There are also secondary considerations, such as a soft-Brexit, whether New Zealand would be first in line for a trade deal with the UK or could even fill the gap left

by Brexit and finally, how the UK and EU agriculture producers perceive New Zealand's agriculture sector.

However, this thesis argues that if New Zealand correctly leverages and influences the UK and EU and is able to embrace the positive impacts of potential FTAs with both parties, the negative implications of Brexit could be avoided, or at the very least mitigated. This can be accomplished through New Zealand's relationships with the UK and the EU. The historical relationship between the UK and New Zealand continues to be one of significance and consequently created the basis of its relationship with the EU. New Zealand now needs to strengthen its relationship with both parties as they undergo changes to their respective regional and domestic politics. Bilal argues that international trade must be viewed as the result of 'a history of political bargains among states of differing power capabilities' (Bilal et al., 2011, p. 1). New Zealand now has the opportunity to capitalise on its respective histories with the UK and the EU.

### **5.2.2 A Free Trade Agreement with the United Kingdom**

As was established in section 4.3, the speed of the Brexit decision, the lack of detailed plans prior to the British referendum, and the absence of formal precedents for a nation-state to exit the EU has created considerable uncertainty which has weakened the May Government's credibility and bargaining power. A trade agreement with New Zealand could be a way to establish some credibility on the international scene and with the relationship shared (explained at 3.2), it would be easy to accomplish. Leavers and the UK government have made promises to the British public that leaving the EU gives the UK the opportunity to "reinvigorate Commonwealth partnerships", a strategy called 'empire 2.0' (Boffey, 2018a). The end result of the strategy is to turn the UK back into a global power.

Another possibility for the UK is to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), formerly known as the Trans-Pacific Partnership (TPP). This enables the UK to "kickstart exports after Brexit" (Mance, Pickard, & Donnan, 2018). The UK needs to gain the support of the existing members, of which New Zealand is one. While it would be better for New Zealand to get a bilateral trade deal with the UK, rather than a multilateral one (Nine, 2018; Obadovic, 2018), New Zealand would still be seen as a strategic ally in joining the CPTPP by the UK, which New Zealand could use to their advantage.

Before, during and after the World Wars, New Zealanders descended from the colonial era immigrants tended to viewed themselves as British, however by the mid 2000's New Zealand's national identity had evolved to 'Kiwi' (Gibbons, 2008, p. 97). Despite this, in terms of social values, public institutions, party policies and their outcomes, New Zealand resembles the UK far more than

most other European countries (Gibbons, 2008, p. 97). New Zealand's familiarity with the British system will help to conclude an FTA with the UK.

One of the more interesting implications that emerged during interviews was the 'maternal' sentiment that many of the older English guard of UK trade policy portrayed. There are people in the UK who are still extremely loyal to New Zealand and view them with the same fondness that saw the UK fight for New Zealand's TRQ access during their accession into the EEC (Gibbons, 2008). New Zealand should be trying to deal with the older guard when negotiating a trade deal as far as possible. This 'maternal' sentimentality was not apparent when interviewing their younger counterparts. However, New Zealand should not presume that their history with the UK will help them to secure a favourable deal. The position that the UK has found themselves in is complicated and they cannot afford to compromise any trade deals due to sentiment. Respondent six remarked that *trade policy is the cold of the cold and questioned how far emotions factor into trade negotiations*. However, employing this strategy could be a way for New Zealand to remain 'first in line' with the UK when the time comes to negotiate an FTA.

### **5.2.3 A Free Trade Agreement with the European Union**

The EU has undermined the UK's strategy of "empire 2.0" by announcing FTA talks with New Zealand and Australia before the UK. New Zealand needs to navigate this tension carefully so political relationships with the UK and the EU are preserved. As explained in 3.2 and 4.4, New Zealand's relationship with the EU is mainly a consequence of their ties to the UK. 2.4 demonstrates how important relationships are to international trade and how these links have been used by New Zealand previously to gain access into the EU.

This is a complex space that New Zealand will be operating in and New Zealand's diplomats and respondents will have to work very hard to balance the competing tensions while not being seen to be taking advantage of the situation. This flexibility needs to be employed to conclude an FTA with the EU quickly, while also fighting for their place against other competing states for an FTA with the UK. Due to the size of the EU market compared to the UK and strategizing for the potential interruption of New Zealand's global supply chain, the EU need to be the priority. New Zealand needs to strengthen this relationship beyond the UK connection. However, what is important to recognise is that by drawing on their shared history and building stronger ties, New Zealand can remain present and relevant in the UK while also working to reassure the EU of their priority.

## 5.2.4 Trade Rate Quotas

TRQ's are one of the worst potential impacts that will hit New Zealand due to Brexit. However, there is cause to be hopeful as there are ways to circumvent splitting TRQ's on historical grounds. New Zealand commonly employs tools used by small states to influence the international order. Small states engage in international organizations and draw on international laws and norms to enhance their leverage and independence in the world system (Hey, 2003). This is currently a strategy being employed by New Zealand and various other nations who are not happy with the way TRQ's are being handled. New Zealand, along with six other nations, including the United States, sent a letter to the UK and the EU suggesting that the proposal would not fully honour the existing WTO commitments and would leave them worse off (Various, 2017).

As was discussed in 4.5.3.2 New Zealand does not have the desired impact acting alone but allying with the USA may help their cause. Involving the WTO in the dispute reminds the EU and UK of their obligations under the WTO of honouring TRQ commitments and the principle of not leaving members worse off (Various, 2017). The UK is currently trying to establish their own WTO schedules to allow for a seamless transition once leaving the EU. Since the interviews have taken place, the UK have submitted their draft schedule outlining post-Brexit good commitments. A joint proposal by the UK and EU detailing how the TRQ's would be divided was also submitted to the WTO (Various, 2017). The USA, Australia and New Zealand (among others) have rejected the proposal, causing problems between the EU and the UK (Boffey, 2018b). The EU have accepted the concerns and are looking for alternative ways forward but the UK are insisting that the TRQ's are split on historical averages (Boffey, 2018b).

Three respondents argued the UK needs the WTO at the moment, and therefore it is very important for the UK to abide by the WTO rulings. A respondent from New Zealand did remark that "*there is a way to maintain flexibility but for the moment the UK is pushing ahead*" (Seven, 2017). New Zealand may have more of an impact on how the TRQ issue is determined than is suggested in 4.5.3.2. However, to maintain this pressure New Zealand has to continue to play hardball and remained aligned with their allies.

## 5.2.5 Conclusion: An Opening into a Protected Market

Brexit's impact upon the international political economy and New Zealand's market access into the EU needs to be mitigated carefully as Brexit could have severe economic and political impacts upon New Zealand's agriculture sector. However, while it is a period of significant disruption upon the international political economy, Brexit has also opened up new trade opportunities, not only restricted



to the UK, but also including the EU. New Zealand has been attempting to gain greater market access into the EU but has been rebuffed due to its powerful agriculture lobby. Managed appropriately, New Zealand could not only mitigate the effects of Brexit but could also create greater market access and a fairer international market that is not distorted by subsidies.

### **5.3 Three little pigs: Can you anticipate Brexit?**

In 2.6, anticipatory governance was discussed in relation to New Zealand. Boston (2017) found that New Zealand does have sufficiently future- focused frameworks in place in regard to the resilience of New Zealand's economy. But Boston also argues that New Zealand has considerably further to go if they want to achieve true anticipatory governance. While Boston's criticism is mainly levelled at New Zealand's environmental and future technologies sector, the responses from respondents suggests that parts of New Zealand's agriculture sector are not adequately prepared for Brexit. In 4.4, respondents discussed New Zealand maintaining relevance in the UK and the EU. A criticism that emerged from respondents was that "*New Zealand (Government and businesses) still haven't quite grasped how hard we are going to have to work and what we are going to have to do maintain our presence*" (Nine, 2018).

Trading blocs such as Mercosur will be looking to capitalise on the vacuums in food supply that Brexit may create in the UK. Mercosur, South America's economic bloc are negotiating a trade agreement with the EU (Leahy & Schipani, 2018). These trade negotiations have been ongoing for the last 20 years and there are still issues surrounding quotas on meat and sugar exports to the EU from Mercosur (Leahy & Schipani, 2018). Argentina and Mercosur will have intimate knowledge of the UK's beef sector and know how to fill the gap from the last 20 years of trade negotiations. There is no issue of an asymmetric power imbalance as the UK (and EU) have much to gain from being granted access into either Argentina or Mercosur (Brunsden & Khan, 2018). An FTA with Mercosur could abolish €4 billion in annual customs duties on EU exports (Brunsden & Khan, 2018). When considering what Mercosur could offer the UK in terms of exports markets, not to mention the 'copy and paste' approach mentioned in 4.5.4.2 by states such as South Korea, New Zealand cannot be sitting idly by and must fight to retain visibility in the UK and the EU.

#### **5.3.1 Strategies to Anticipate 'Brexit'**

New Zealand should be taking steps to establish various adaption planning strategies to Brexit (Vermeulen et al., 2013). While there is a committee in Wellington considering Brexit issues (Nine, 2018), anticipating Brexit would be easier for New Zealand to accomplish if there was a dedicated future focused ministry or a high-level foresight unit that plans for uncertainty, as is suggested by Boston (2017). All respondents spoke of how New Zealand should still be anticipating all eventualities

through accounting and planning for every scenario; whether it is a crash-out, a Norway or Swiss model.

New Zealand's agriculture sector will have to account for this in any business plans as uncertainty surrounds Brexit and confuses New Zealand interests. Other policies suggested would be to put an economic and political development team in the UK (Nine, 2018), whose sole responsibility is investigating Brexit and potential pathways for maximising or mitigating potential impacts. Businesses and government should be working cooperatively towards developing marketing strategies that are specific for each bloc. While the UK and EU are similar, they are still separate markets with their own preferences. New Zealand needs to make sure that certain export strategies are in place and are clearly enunciated for both the EU and UK. 4.4 makes it clear there are concerns surrounding small New Zealand businesses that lack knowledge of how international trade functions, specifically how tariffs diminish returns on an exported good (Nine, 2018). This is something that could be easily fixed with a targeted communications strategy for businesses and the export sector. Due to the importance of trade to New Zealand, the Government and businesses should be collaboratively implementing education programs that fosters greater understanding. This should be a priority for the agriculture sector and not just targeted towards businesses, but so that New Zealand's population has a general understanding of international trade.

### **5.3.2 Team work**

Occupying a strategic position has already been discussed above, but another advantage that Jones (2013) discusses is whether the small state has sound political leadership and technical skills to deploy an astute negotiating strategy. If held constant, small states can exert substantial influence. This is an area that Katzenstein (1985) also touches on, albeit in different wording. He argues that consensus and pragmatism are two fundamental conditions that are needed for a small state to maintain flexibility in periods of economic shocks. In 4.4, New Zealand's bi-partisan trade policy was discussed where respondents stated that, despite a change in government in 2017, New Zealand's trade sector is bi-partisan. New Zealand may have only formally proposed an FTA with the EU back in 2009 but the planning stages would have been going on for years beforehand. The National Government gained power in November 2008 but the organisation needed to deploy a negotiation strategy would have begun during Helen Clark's Labour Government (One, 2017). The consensus between the two major parties is evident due to the importance of trade to the New Zealand economy. This relatively coherent trade strategy has allowed New Zealand to become masters in the field of international trade, and several respondents expressed the view that *New Zealand is very well respected in the field* (Nine, 2018). It is easy to conclude from above that New Zealand has the political leadership, technical skills, consensus and pragmatism needed to negotiate and conclude an FTA.

However, as was discussed in 4.4, New Zealand's government may not be aware of how hard they are going to have to work to remain present and relevant to the UK and the EU during this period. By implementing the strategies discussed in 5.3.1, New Zealand should be able to anticipate the impacts of Brexit and remain present to the UK and the EU.

### **5.3.3 Know how, can do**

Regardless of what model the British and the EU decide upon, the EU will not continue to subsidize British farmers through CAP. This means that the UK Government will have to decide between continuing funding their own version of CAP at current levels or restructuring how the British agriculture sector is run and liberalising parts of the sector.

As established in chapter 3, CAP distorts agriculture markets and stops exports (to a degree) from entering the EU. This makes it very hard for New Zealand producers to compete. Full liberalisation of the UK and EU agriculture sector is unlikely (Obadovic, 2018). However, there is a possibility that the UK will reform parts of their agriculture sector as they will be unable to afford to fund the current rates of subsidies. If the UK succeeds in their endeavour, the EU may follow suit.

In 2.4, Lynch (2012) was quoted as saying that small states may be able to achieve influence through "illuminating lesser known paths" to other states (Lynch, 2013, p. 20). As was also established in 2.3 and 3.3, New Zealand completely liberalised their agriculture sector and as a result gained a comparative advantage in agriculture products. This is something of interest to the UK. The UK have been sending delegations to New Zealand to see what New Zealand did during the 1980's and what they are doing now. As one respondent said, "*we are not telling them what to do but there are some useful lessons in what we did in the 1980's*" (Seven, 2017). New Zealand needs to capitalise on this. In 3.5 it was stated that 60% of UK farm incomes come from the EU and that without these subsidies 90% of farms would fail. It was estimated that 8000 farmers would lose their farms in New Zealand during the 1980's reforms and yet this did not eventuate. Educating the UK on how New Zealand liberalised their agriculture sector has the potential to influence a CAP reform that would benefit New Zealand's agriculture sector. New Zealand needs to encourage more delegations to and from the UK and become more involved in the UK agriculture sector through educating farmers on the advantages of liberalising the agriculture sector.

Encouraging delegations and becoming more involved in the UK's agriculture sector serves a further purpose. In 4.5.4.4, New Zealand's image in the UK and the EU was discussed. It was found that despite New Zealand enjoying a reputation in the world as an excellent producer and exporter of high quality agriculture goods, UK and EU producers do not share the same view. Whether it is because

they are scared of the threat that New Zealand goods would pose to their own or because they are misinformed, this viewpoint needs to be corrected. New Zealand will not be able to take advantage of the opportunities Brexit is offering if they are let down by their own image in the UK and EU. Opening a dialogue with UK farmers and continuing delegations that include UK farmers is a way to circumvent the negative image of New Zealand's agriculture goods in the UK and the EU.

#### **5.3.4 A Helpful Hand**

Brexit is not only going to affect the UK, the EU and New Zealand; the whole international political economy will have to adapt to the changes that Brexit will bring. New Zealand respondents made it very clear that while they do not want to take advantage of Brexit, they do not want to be adversely affected by it either. A crash-out situation is the worst possible outcome for all parties involved and the wider international political economy. Therefore it is in *New Zealand's interest to work together and in the most orderly way possible* (Seven, 2017) with not only the UK and EU but the rest of the world. Relationships are vital and strengthening them through being cooperative and not complicating the process is a way to maintain the status quo and remain present and relevant.

#### **5.3.5 Huh, We Like That Too!**

New Zealanders have particular food preferences and therefore New Zealand's agriculture sector supplies what New Zealanders demand. According to several respondents, *New Zealanders prefer their food to be as natural as possible, therefore the farming sector produce grass fed, hormone free, antibiotic free, GM free goods* (Nine, 2018). The UK also hold the same preferences for food and therefore are very particular about the food they eat. New Zealand needs to capitalise on their natural production of agriculture goods as this is in line with what the UK population demands. It also gives New Zealand a slight edge over any other competitors, such as the United States. In 1989, the EU banned beef that has hormones in it from being imported (Stephany, 2001). The United States, however, use hormones in their beef. This gives New Zealand an advantage over competitors as there is no point exporting a good that the naturalised population will not eat. There is also the opportunity to fill the niche gap of fine food, if the UK is no longer able to source these goods from other European countries. NZ lamb in particular is considered *a finer food in the UK* (Three, 2017).

#### **5.3.6 The Flexibility to Avoid Brexit**

As a small state, New Zealand has an inherent flexibility that enables it to manoeuvre quickly when confronted with tension and changes in spheres of influence in the international political economy, a derivative power that enables them to obtain, commit and manipulate the power of more powerful states. However, New Zealand will have to employ suitably anticipatory strategies to avoid the worst

impacts of Brexit. The above strategies offer ways in which New Zealand can navigate considerable uncertainty, while simultaneously evolving its relationships with both the UK and EU so that New Zealand can embrace the opportunities that have presented themselves via the process of 'Brexit'

## **5.4 Conclusion**

Chapter 5 discussed the themes identified in Chapter 4 in greater depth in relation to how New Zealand ought to position itself to maximize leverage and influence the subsequent and future international trade negotiations with the EU and UK. Overall, despite there being some anticipatory issues that New Zealand's agriculture sector need to address, New Zealand is in a good position to navigate the inherent tension between the UK and the EU and leverage the UK and the EU into FTA's that will minimise the negative impacts of Brexit. However, it is important that New Zealand strengthens its relationships with both the UK and the EU and in particular fosters its relationship with the EU outside of the UK's orbit. New Zealand must not be seen to be taking advantage of Brexit, rather New Zealand should be an ally in the process of Brexit. The similarities between New Zealand and the UK and EU will help New Zealand to facilitate a trade agreement with the UK when the time comes. However, the EU at this stage must be the priority and efforts need to be concentrated upon strengthening New Zealand's relationship with the EU outside of the UK's influence.

Chapter 6 will conclude this thesis by summarising the research analysis and responding to the research aim. Recommendations and the limitations of this case study will be offered as will potential avenues of research. Finally, Chapter 6 will conclude that New Zealand's nature as a small state can be an asset rather than a hindrance if effectively utilised.

# Chapter Six: Conclusion and Policy Recommendations

## 6.1 Introduction

This thesis sought to explore the short and long term diplomatic and trade risks and opportunities for New Zealand's agriculture sector, providing insights into the complexities of the Brexit negotiations and their potential outcomes. It aimed to critically examine how New Zealand ought to position itself to maximise leverage and influence future and subsequent international trade negotiations with the UK and EU as a result of Brexit. Semi-structured interviews with fifteen respondents from both New Zealand and UK were analysed in conjunction with grey literature and mass media to meet the following objectives:

1. To review the literature of small state trade and determine in what ways and to what extent we might expect global forces and larger economic and political powers to influence New Zealand
2. To interview key economic and political actors in international agriculture trade, specifically with a background in New Zealand, UK and EU agriculture trade policy, and document how New Zealand's agriculture sector is responding to Brexit
3. To determine the threats and opportunities posed by Brexit for New Zealand agriculture trade
4. To discuss the implications of the research findings and identify opportunities for New Zealand to re-assess its relationship with the UK and EU around agriculture trade in beneficial ways

This final chapter will conclude the thesis and consist of a summary, recommendations, limitations, areas for further study, and final comments. Overall, this thesis has argued that despite creating a period of critical disruption to the international political economy (Barber, 2016; Brinded, 2016), Brexit has is a vital trade negotiation opportunity for New Zealand. Brexit has opened up new trade opportunities, not only restricted to the UK, but also including the EU (MFAT, 2018b; Patterson, 2018b). I conclude that New Zealand is in a good position to navigate the inherent tension between the UK and the EU and leverage the UK and the EU into FTA's that will minimise the negative impacts of Brexit.

## 6.2 Summary of Thesis

Using a case study approach, *Brexit, New Zealand and Agriculture Trade* were examined in depth throughout this thesis. The body of this text produced a framework explaining how a small state adapts to changes in the international political economy and navigates international pressures and tensions. Chapter 1 introduced the topic of Agricultural trade and its importance to New Zealand and explained and justified the methodological approach of a case study within the paradigms of

qualitative research. Chapter 2 contextualised the issue of agricultural trade policy for New Zealand in a post-Brexit world by reviewing the literatures on small states in the international political economy, asymmetric negotiations, and anticipatory governance. Taken together, these three approaches suggest small states are able to adapt to adverse disruption in the international political economy through their inherent flexibility and seize upon opportunities that may present. In addition, a framework was created for determining how New Zealand may strategically position itself to leverage the UK and EU so that the worst impacts of Brexit are anticipated and mitigated. Chapter 3 presented a history of New Zealand's agriculture trade, through examining New Zealand's colonial past with the UK and subsequent relationship with the EU, and how New Zealand re-orientated itself after the UK joined the EEC. Chapter 3 briefly detailed why Brexit happened and what has occurred in the international political economy immediately thereafter. Ultimately, reviewing the history of New Zealand's agriculture trade contextualised current relations and gave a deeper understanding of why Brexit should be studied in conjunction with New Zealand's agriculture trade sector. In Chapter 4, I reported the results of the semi-structured interviews with the fifteen political and economic actors and analysed the results by clustering the commentaries into themes. The key themes that emerged, and which are discussed above, were: uncertainty, New Zealand's relationships with the UK and the EU, and potential impacts. These themes provided insights into the complexities of the Brexit negotiations and their potential outcomes. Chapter 5 discussed these themes in greater depth in relation to how New Zealand ought to position itself to maximize leverage and influence the subsequent and future international trade negotiations with the EU and UK.

### **6.3 Recommendations**

Since the 1970's New Zealand has been forced to develop a flexible trade policy and a domestic spirit of political cooperation as a result of international market exposure and the strategic disadvantages of small size in negotiating international terms of trade (Hoadley, 2017; Katzenstein, 1985; Keating, 2016). According to respondents, *New Zealand has become well regarded in the international political economy* and frequently 'punches above its weight' (Köllner, 2018). Despite this, there are both risks, and opportunities involved in New Zealand's trade negotiations with both the UK and EU post-Brexit. New Zealand now needs to employ all of its considerable skill to navigate the tensions that have erupted between the UK and the EU due to competing objectives and the subsequent uncertainty that has transpired. Originally my thesis was limited to the bilateral relationship between New Zealand and the UK as initial commentary suggested that Brexit might merely be a period of critical disruption to the international political economy (Barber, 2016; Brinded, 2016). However, in the months that followed, Brexit has been reinterpreted as a vital trade negotiation opportunity for New Zealand. Brexit has opened up new trade opportunities, not only restricted to the UK, but including the EU (MFAT, 2018b; Patterson, 2018b).

This section outlines recommendations for New Zealand in navigating a post-Brexit environment, as discussed by respondents and analysed in Chapters 4 and 5 of this thesis:

- New Zealand businesses and Government should be aware that a 'crash-out' is still possible and should be doing everything in their power to strategize ways around its impact on New Zealand's agriculture sector.
- New Zealand must focus on growing and strengthening its relationships with both the UK and the EU in order to mitigate the potential negative impacts of Brexit on New Zealand's agriculture sector as remaining present and relevant is of the utmost importance.
- New Zealand needs to position itself accordingly but cannot be seen to be taking advantage of Brexit.
- New Zealand's primary focus needs to be with the EU at the moment due to the FTA being negotiated between New Zealand and the EU.
- New Zealand should utilise its expertise gained in the area of agriculture reforms in the 1980s. This is a way to remain relevant and also an opportunity to influence a reformed CAP in the UK that could be beneficial for New Zealand. This could encourage the EU to look at their own CAP. Potential reforms to the CAP may re-level the playing field of the agriculture market, meaning New Zealand may no longer have to compete against a subsidised product.
- New Zealand needs to focus refreshing its image of agriculture goods in the UK and EU.
- In regard to the TRQ's, New Zealand needs to keep the pressure on the UK and the EU and continue discussions and fostering relationships with allies.
- Small New Zealand businesses are missing out on returns because they are overlooking small details in international trade. The New Zealand Government and businesses need to work together to prioritise improving an understanding of international trade. A targeted communication strategy between agricultural businesses and the relevant government agencies can foster depth of understanding in relation to the role that small business plays in the New Zealand economy as a whole.
- New Zealand needs to embrace the idea of anticipatory governance – being a small state gives inherent flexibility but improving anticipatory governance through having a future focused ministry and putting an economic and political development team on the ground in the UK and the EU would give New Zealand an added advantage
- New Zealand should consider ways to fill a niche within the international agriculture market, including through continuing to produce agricultural goods that are as natural as possible and filling the 'fine food' gap that may develop in the UK post-Brexit



Taking into consideration these recommendations may serve as a starting point for New Zealand in considering how New Zealand ought to position itself to maximise leverage and influence future and subsequent international trade negotiations with the UK and EU as a result of Brexit.

## **6.4 Limitations**

Despite its relevance and contribution to the conversation about the effects Brexit may have on small states, there are two major limitations to this research that should be mentioned. Firstly, it is based primarily on speculation from respondents, as no one can say for certain what is going to happen or how New Zealand should respond. Secondly, the sample of respondents was limited due to the nature of the thesis and a lack of time and resources, and the perspectives of people with sole allegiance to the EU or the perspectives of UK and EU farmers have not been included.

## **6.5 Areas for further research**

The themes that have emerged from this thesis are suggestive of a number of opportunities for further research. Economic modelling of the exact impact of a 'crash-out' on New Zealand's agriculture sector would be beneficial, as would specific research into how small New Zealand businesses should approach international trade. The exact areas of international trade that New Zealand needs to improve upon, and more detail and recommendations around this would ensure greater clarity around opportunities for New Zealand in a Post-Brexit environment moving forward.

## **6.6 Final comments**

On the 23<sup>rd</sup> of June 2016, the UK initiated Brexit; a decision that could have severe economic and political implications for New Zealand in respect to agricultural trade. New Zealand and the UK have a strong relationship that was established in colonial times, which consequently formed the basis of New Zealand's ensuing agriculture relationship with the EU. However, with the UK initiating the process of Brexit there is now a chance to re-assess the economic trade relationship with both the UK and the EU via FTA's. New Zealand needs to adapt to the changing international political economy, while simultaneously evolving its relationships with both the UK and EU as they undergo changes to their respective regional and domestic politics. Subsequently, New Zealand will have to navigate considerable uncertainty to avoid the negative implications created so that New Zealand can embrace the opportunities that have presented themselves via the process of 'Brexit'. It is important that New Zealand is not seen to be taking advantage of Brexit, rather that New Zealand is an ally in this process. However, New Zealand is in a good position to navigate the inherent tension between the UK and the EU and leverage the UK and the EU into FTA's that will minimise the negative impacts of Brexit.

## Appendix One



### HUMAN ETHICS COMMITTEE

Secretary, Rebecca Robinson Telephone: +64 03 369 4588, Extn 94588 Email: [human-ethics@canterbury.ac.nz](mailto:human-ethics@canterbury.ac.nz)

Ref: HEC 2017/88/LR 18 October 2017

Stella Mary Smith

Political Science and International Relations UNIVERSITY OF CANTERBURY

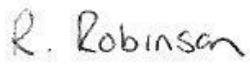
Dear Stella

Thank you for submitting your low risk application to the Human Ethics Committee for the research proposal titled "Small States in a European Market: Prospects for New Zealand Agriculture Post-Brexit".

I am pleased to advise that this application has been reviewed and approved.

Please note that this approval is subject to the incorporation of the amendments you have provided in your emails of 6<sup>th</sup> and 16<sup>th</sup> October 2017

With best wishes for your project. Yours sincerely

pp. 

Associate Professor Jane Maidment

Chair, Human Ethics Committee

University of Canterbury Private Bag 4800, Christchurch 8140, New Zealand. [www.canterbury.ac.nz](http://www.canterbury.ac.nz)

## Appendix Two



Political Science

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[Date]

### **Small State in a European Market: Prospects for New Zealand Agriculture Post-Brexit Information Sheet**

My name is Stella Smith and I am doing a Masters of Policy and Governance at the University of Canterbury. The purpose of my research is to critically examine/investigate how the New Zealand Government and the agriculture sector is responding to Brexit and the potential impacts upon New Zealand's agriculture sector. This research will contribute to both applied New Zealand trade policy and to the theoretical understanding of anticipatory governance in small states. This thesis investigates New Zealand's initial policy responses to this significant change and identifies potential policy pathways for strategic adaption to this new trade framework. The implications on our agriculture sector of the Brexit decisions and its subsequent evolution in practice are of massive importance to New Zealand's economy because it contributes to 19% to New Zealand's GDP, a huge share in terms of the overall OECD (Saunders, 2016). Data for this analysis will be drawn from interviews.

If you choose to take part in this study, your involvement in this project will be a semi-structured interview that will take around 20 minutes. The questions will be related to your field of specialisation within the New Zealand agri-food trade sector.

Participation is voluntary and you have the right to withdraw at any stage without penalty. You may ask for your raw data to be returned to you or destroyed at any point. If you withdraw, I will remove information relating to you. However, once analysis of raw data starts on 30<sup>th</sup> November 2017, it will become increasingly difficult to remove the influence of your

data on the results. Participants will be sent the transcript from their interview and will have the opportunity to amend this should they wish to do so.

The results of the project may be published, but your identity will not be made public without your prior consent. A thesis is a public document and will be available through the UC Library.

Please indicate to the researcher on the consent form if you would like to receive a copy of the summary of results of the project.

The project is being carried out as a requirement for a Masters of Policy and Governance by Stella Mary Smith under the supervision of Associate Professor Amy Fletcher and Associate Professor Bronwyn Hayward, who can be contacted at [amy.fletcher@canterbury.ac.nz](mailto:amy.fletcher@canterbury.ac.nz) and [bronwyn.hayward@canterbury.ac.nz](mailto:bronwyn.hayward@canterbury.ac.nz). They will be pleased to discuss any concerns you may have about participation in the project.

This project has been reviewed and approved by the University of Canterbury Human Ethics Committee, and participants should address any complaints to The Chair, Human Ethics Committee, University of Canterbury, Private Bag 4800, Christchurch ([human-ethics@canterbury.ac.nz](mailto:human-ethics@canterbury.ac.nz)).

If you agree to participate in the study, you are asked to complete the consent form and return it to [stella.smith@pg.canterbury.ac.nz](mailto:stella.smith@pg.canterbury.ac.nz)

Stella Smith

## Appendix Three



Political Science

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### **Small State in a European Market: Prospects for New Zealand Agriculture Post-Brexit Consent Form**

- ☐ I have been given a full explanation of this project and have had the opportunity to ask questions
- ☐ I understand what is required of me if I agree to take part in the research
- ☐ I understand that participation is voluntary and I may withdraw at any time without penalty. Withdrawal of participation will also include the withdrawal of any information I have provided should this remain practically achievable
- ☐ I understand that any information or opinions that I provide may be published in the project.
- ☐ I consent to the use of my name/title in reference to direct quotes from the interview; OR
- ☐ I do not consent to the use of my name/title in reference to direct quotes from the interview. I understand confidentiality will be maintained through the use of non-specific references (e.g., a UK policy analyst noted in one interview that.....)
- ☐ I understand that participants will be sent the transcript from their interview and will have the opportunity to amend this should they wish to do so.
- ☐ I understand that a thesis is a public document and will be available through the UC Library.
- ☐ I understand that all data collected for the study will be kept in password protected electronic form and will be destroyed after five years.
- ☐ I understand that I can contact the researcher, Stella Smith at [stella.smith@pg.canterbury.ac.nz](mailto:stella.smith@pg.canterbury.ac.nz) or supervisor, Associate Professor Amy Fletcher at,

[amy.fletcher@canterbury.ac.nz](mailto:amy.fletcher@canterbury.ac.nz) or supervisor, Associate Professor Bronwyn Hayward at, [bronwyn.hayward@canterbury.ac.nz](mailto:bronwyn.hayward@canterbury.ac.nz) for further information. If I have any complaints, I can contact the Chair of the University of Canterbury Human Ethics Committee, Private Bag 4800, Christchurch ([human-ethics@canterbury.ac.nz](mailto:human-ethics@canterbury.ac.nz))

- ☐ I would like a summary of the results of the project.
- ☐ By signing below, I agree to participate in this research project.

Name: \_\_\_\_\_ Signed: \_\_\_\_\_ Date: \_\_\_\_\_

Email address (*for report of findings, if applicable*):

## **Appendix Four**

### **Semi-Structured Interview Questions**

- 1) There is some speculation about the future of Brexit. Do you think that
  - a. Brexit will happen
  - b. If so, what form will Brexit take
  - c. What form will be most beneficial to New Zealand
- 2) What are in your opinion the biggest risks for New Zealand Agriculture
- 3) Biggest opportunities
- 4) What do you think are the key TRQ challenges for New Zealand?
- 5) Recently in the news the UK has said they are interested in joining the TTP
  - a. What sort of trade model is the NZ government pursuing with both the UK and the EU?
- 6) What strategies should the New Zealand government and businesses be implementing to minimise the risks of Brexit
- 7) We have had a change in government with the Labour party, Green Party and New Zealand First setting up a coalition government – Will this have an impact on our trade agenda?
- 8) Is there anything else I should have asked or focused on?

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